Strategy Delivery & Risks

1. INVESTING IN OUR FLEET

2016

Objectives

Manage our business for a continued weak market in the medium term and prioritise safety and staying power. Carefully consider further acquisition opportunities at depressed prices in the continued weak market ahead with which we could generate positive cash contributions even in the prevailing weak market.

Strategy delivery and performance

Having stopped buying ships in early 2014, we continued to supplement our core fleet with low-rate short-term chartered ships which contribute to our service and results even in the depressed market.

We assimilated into our fleet six of the ships we purchased at low prices before 2014. They have slotted into our cargo systems well, and have made a positive cash contribution even in the weak market.

2017

Objectives

Manage our business for continued uncertain markets in 2017 and continue to conduct our business efficiently and safely. Having positioned ourselves to capitalise on improving market conditions ahead, we will assess attractive fleet renewal opportunities.

RISK/IMPACT	RISK REDUCTION MEASURES
Market Risk (A) Adverse financial impacts include: ■ earnings volatility ■ cost volatility including fuel prices, interest rates and other operating expenses ■ exchange rate volatility in the currencies we use **Change from last year:** ↑	Earnings volatility is partially managed by securing contracts of affreightment of one year or longer. We remain focused on the Handy segments of the dry bulk sector which is where we have a strong competitive edge. Volatile fuel costs for our long-term cargo contracts are passed through to our customers through bunker price adjustment clauses or hedged with either bunker swap contracts or forward price agreements. Volatile and sharply reducing fuel prices mean we need to constantly reassess our optimal vessel operating speeds to maximise each voyage's contribution. Page 69 Financial Statements Note 12 See Derivative Assets and Liabilities for our use of derivative financial instruments to manage volatility in fuel prices, interest rates and exchange rates.
Vessel Investment, Deployment and Operational Risk Inappropriate vessel investment timing, deployment and operations may lead to an uncompetitive cost structure and reduced margins. Vessel values vary significantly through shipping cycles, and we need competitively priced, high-quality vessels to provide our services to customers. **Change from last year:** →	We evaluate potential vessel investments and divestments based on relevant market information, estimated future earnings and residual values. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we maintain an active fleet renewal programme by: ■ securing newbuilding contracts with leading, reputable and financially viable shipbuilders; ■ transacting secondhand deals with creditworthy counterparties; and ■ securing long-term inward charters of modern vessels. Our technical team and crews operate and maintain our ships under our International Safety Management (ISM) Code-compliant "Pacific Basin Management System" to assure safety and service reliability.

2. DEEPENING OUR RELATIONSHIPS

2016

Objectives

To improve the customer experience to enhance our access to cargoes, drawing on a global team and office network that is unmatched in the dry bulk sector.

Strategy delivery and performance

We served around 500 customers and carried to 57 million tonnes generating full-time employment for our 77,180 ship revenue days (2015: 74,900). Having sold substantially all our non-core activities, our management is now fully focused on our core Handysize and Supramax business. We are increasing customer engagement and through our global office network are connecting and strategising with a larger number of customers at a local level.

2017

Objectives

To increase customer engagement and partnership at a local level and further improve the customer experience by streamlining systems and processes, thereby enhancing our access to cargoes, drawing on a global team and office network that is unmatched in the dry bulk sector.

RISK/IMPACT	RISK REDUCTION MEASURES
Credit and Counterparty Risk A Default or failure of counterparties to honour their contractual obligations may cause financial losses. Counterparties include: ▪ our cargo customers ▪ ship builders, sellers and buyers ▪ derivatives counterparties ▪ banks and financial institutions **Change from last year:** ↑	Our global office network enables us to better know our counterparties. We take measures to limit our credit exposure by: ▪ transacting with a diverse range of counterparties with successful track records and sound credit ratings; ▪ actively assessing the creditworthiness of counterparties; and ▪ obtaining refund guarantees from newbuilding shipyards. Page 73 Financial Statements Note 13 Trade and Other Receivables
Customer Satisfaction and Reputation Risk Poor service can lead to loss of customers. Impaired brand value and reputation as a trusted counterparty could restrict our access to customers, cargoes, high-quality vessels, funding and talent. **Change from last year:** →	Our global office network positions us close to our customers enabling frequent customer engagement, a clear understanding of their needs and localised customer service. A large, modern, uniform fleet and comprehensive in-house technical operations enhance our ability to deliver a high-quality and reliable service. Customer engagement includes regular customer surveys to see how we can further improve customer satisfaction.
Banking Relationships Risk Poor relationships with banks may limit our funding sources. **Change from last year:** →	We have a dedicated treasury function that develops and maintains our relationships with a diverse group of reputable banks worldwide. These relationships are enhanced through regular senior management contact and consistent compliance with our loan obligations.

3. INVESTING IN OUR PEOPLE

2016

Objectives

Continue to develop and motivate our teams to enhance safety, productivity, customer satisfaction and job fulfilment.

Strategy delivery and performance

Despite the continued challenges of increased global demand for seafarers and ship managers, we successfully managed the delivery of six new ships into our owned fleet. We currently employ over 3,000 seafarers and 330 shore-based staff.

We recruited 12 dry bulk graduate trainees, hosted four officer training seminars ashore and provided external training to 48% of our shore-based staff in 2016. Investments such as these contribute to enhanced employee engagement and satisfaction.

2017

Objectives

Continue with our objectives of achieving improvements in safety performance, staff retention, productivity, customer satisfaction and job fulfilment.

RISK/IMPACT

Succession Risk

Inadequate succession planning could lead to prolonged executive searches, disruption to our strategic momentum and the business, and undermine stakeholder confidence in the Group.

Change from last year: ↑

RISK REDUCTION MEASURES

Our Group has a dedicated HR department which oversees organisational design, talent management, hiring and remuneration. Succession plans for senior management are regularly reviewed.

The Nomination Committee closely monitors the Board succession planning process to ensure Board continuity and diversity. We have a clear vision, mission and business principles with which to equip any potential successors to lead the business forward.

Employee Engagement Risk

We are only as good as our people and so our ability to achieve our vision depends on the effectiveness of our staff both ashore and at sea. Loss of key staff or an inability to attract, train or retain staff could affect our ability to grow our business and achieve our long-term goals.

Change from last year: →

Our Group HR and crewing departments are tasked with recruiting, developing and maximising engagement of staff ashore and at sea by:

- maintaining regular contact with talent representing a wide cross-section of the shipping industry, and we use diversified manning sources for seafarers;
- regularly reviewing our salary structure to ensure that it remains adequate to attract and retain the best talent;
- offering regular training for staff ashore and at sea; and
- implementing annual staff performance appraisals, incentives and other initiatives to encourage, retain and otherwise engage staff.

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Workplace & Safety
Training & Development

4. SAFEGUARDING HEALTH, SAFETY AND ENVIRONMENT

2016

Objectives

Through a continued focus on training, to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.

Strategy delivery and performance

We reduced our total recordable case injury frequency by 18%, and our inspection deficiency rate (related to our Safety Management System) reduced 19% in 2016. These statistics are among the best in the industry and represent the value of a specific focus on staff training.

2017

Objectives

Through training, continue with our objectives of substantially eliminating injury, navigation and pollution incidents, minimising our environmental impact and promoting a healthy and supportive work environment at sea and ashore.

RISK/IMPACT	RISK REDUCTION MEASURES
Safety Risk Inadequate safety and operational standards, piracy and other causes of accidents may lead to loss of life, severe damage to property and our vessels, and impact the Group's reputation among seafarers, customers and other stakeholders. **Change from last year:** →	Our commitment to the safe operation of our ships is manifested through a proactive system ashore and at sea – the Pacific Basin Management System – enhanced by well-conceived training and maintenance programmes and innovative initiatives to ensure our vessels are in good condition and in all respects safe to trade. The high quality of our attention to safety is evidenced by an excellent safety record and our several safety-related awards in recent years. CSR Report Page 15 Workplace & Safety Health & Safety
Environment Risk Non-compliance with emissions and other environmental legislation and standards may result in financial loss and significant damage to our brand and the long-term sustainability of our business. **Change from last year:** →	We are at the forefront of efforts in our sector to mitigate emissions through initiatives to improve engine performance and hull and propulsion hydrodynamics, and to adopt fuel-efficient operational measures such as our home-grown Right Speed Programme. We use types of fuel that comply with the relevant regulations set out by the International Maritime Organization (IMO). We have a plan in place to install treatment units on our vessels to comply with new Ballast Water Treatment regulations that take effect in late 2017. We promote a proactive safety culture across our fleet involving safety risk assessments to mitigate risk in critical tasks on board. Through our safety training, we seek to eradicate the risk of accidents that lead to pollution and related penalties, costs and adverse publicity. We cover our risk of liability for pollution through reputable Protection & Indemnity (P&I) clubs. CSR Report Page 29 Environment
Insurance Risk Any vessel incident could endanger our crew, adversely affect the strength of our brand and reputation and result in service disruption and significant costs. **Change from last year:** →	Despite best efforts to ensure safe operations, incidents do happen. We place insurance cover at competitive rates through marine insurance products, including hull and machinery, war risk, protection and indemnity, freight demurrage and defense cover. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.

5. ENHANCING CORPORATE & FINANCIAL PROFILE

2016

Objectives

Continue to work within our financial gearing targets, maintain the financing of the Group, and strive for best-in-class corporate stewardship, transparency and reporting, including full adoption of the latest ESG reporting guidelines issued by The Stock Exchange of Hong Kong Limited.

Strategy delivery and performance

Despite significant fleet investment in 2012/13, we still benefitted from conservative gearing and access to funding. This gives comfort to customers and shareholders alike which contributes to the strong corporate profile that makes Pacific Basin a preferred partner for many stakeholders.

In June we raised US$143 million (net) through a rights issue of new shares which strengthened our balance sheet and liquidity position, negated the impact of the October convertible bonds repayment and gave us additional flexibility for vessel purchases. Our success in completing the rights issue in a very weak market reflects investor confidence in our sector-leading business model and corporate profile.

At year end, our gearing ratio was 34% and we were in compliance with our bank covenants.

2017

Objectives

Continue to work within our financial gearing targets, maintain the financial health of the Group, and strive for best-in-class reporting, transparency and corporate stewardship.

RISK/IMPACT	RISK REDUCTION MEASURES
Liquidity Risk (A) Insufficient financial resources (such as bank borrowing facilities) may negatively impact the Group's ability to meet its payment obligations as they fall due. **Change from last year:**	Our Group's Treasury function actively manages the cash and borrowings of the Group to ensure: ▪ sufficient funds are available to meet our existing and future commitments; ▪ an appropriate level of liquidity is maintained during different stages of the shipping cycle; ▪ compliance with covenants relating to our borrowings and convertible bonds; and ▪ regular and transparent dialogues with our relationship banks are maintained. Page 88 Financial Statements Note 29 Financial Liabilities Summary
Capital Management Risk (A) Weakness in our financial management capability and insufficient capital could impact (i) our ability to operate as a going concern, (ii) our ability to provide adequate returns to shareholders, and (iii) other stakeholders' ability and willingness to support the Group. **Change from last year:**	We conduct regular reviews to ensure an optimal capital structure taking into account: ▪ future capital requirements and capital efficiency; ▪ prevailing and projected profitability; ▪ projected operating cash flows; and ▪ projected capital expenditure and expectations for strategic investment opportunities. Our dividend policy is to distribute regular dividends to shareholders and to pay out a minimum of 50% of eligible profits for the year, with the remainder of the profits retained as capital for future use. Our Board of Directors monitors closely the ratio of net borrowings to net book value of property, plant and equipment, and the ratio of net borrowings to shareholders' equity. Page 3 Financial Summary

6. EVOLVING MANAGEMENT & GOVERNANCE PRACTICES

2016

Objectives

Refine management decision-making, risk mitigation and board governance procedures and considerations. Ensure all new recruits are trained to fully observe our risk management and governance procedures. Uphold best-in-class levels of transparency and stakeholder confidence.

Strategy delivery and performance

Our risk management team continued to raise emerging risk and control awareness amongst staff in 2016.

We were the sole recipient of a Gold Award in the mid-to-small cap category at the HKICPA's Best Corporate Governance Awards. We have adopted the latest ESG reporting guidelines issued by The Stock Exchange of Hong Kong Limited.

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News & Achievements
Our awards in 2016

2017

Objectives

Understanding our emerging risks in the changing shipping market and establish effective mitigating controls to underpin our commitment to sustainable business. We always seek to refine management decision-making, risk mitigation and board governance procedures and considerations. We strive to continue to uphold our best-in-class levels of board governance, business transparency and stakeholder confidence.

RISK/IMPACT	RISK REDUCTION MEASURES
Cyber Security Risk Our business processes rely on IT Systems particularly for daily communications ashore and at sea. Failure of a key IT systems, targeted attacks on our system, or a breach of security could result in communications breakdown and business disruption. **Change from last year:** ↑	Our IT Steering Committee chaired by our CEO oversees the Group's IT policies and procedures and ensures the Group's IT strategies meet our business needs. Our IT team works closely with the business departments to tailor effective IT systems, support, and preventive and contingency measures. We have implemented business continuity arrangements for critical IT systems and activities. Vessel hardware and systems are reviewed periodically to maximise system efficiency and security.
Corporate Governance Risk Inadequate corporate governance measures may adversely impact the diligence, integrity and transparency of our risk assessment, decision-making and reporting processes and undermine stakeholder confidence. **Change from last year:** →	Our Group is committed to good corporate governance to meet the requirements of our business and stakeholders. The Audit Committee and Risk Management Committee proactively ensure the overall corporate governance and risk management framework for the Group. Internal procedures are in place to ensure compliance with all local and international laws and regulations in the places we trade, including the comprehensive regulations enacted by the International Maritime Organization (and enforced by its member countries) and UN, US and EU sanctions legislation. The Board and relevant employees receive regular governance training to ensure a high standard of corporate governance. Page 28 Corporate Governance
Investor Relations Risk An ineffective investor relations function or inadequate transparency in our external communications could undermine stakeholder confidence in our Group. **Change from last year:** →	We have a dedicated investor relations function as well as policies and guidelines on information disclosure and communication with the public. We report half-yearly with quarterly trading updates, we keep the public informed of material developments guided by Corporate Governance Code best practices, and our website is updated regularly with company news and financial information. Page 47 Investor Relations

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