The purpose of risk management is to ensure that management understands the risks the Group is exposed to and acts to mitigate these risks where considered appropriate.

Our risk monitoring structure

Audit Committee

Risk Management Committee (Headed by Group’s Chief Executive Officer)

Reporting

Communication

Feedback

Our risks

Market Risks
1. Earnings Volatility
2. Vessel Value Volatility
3. Bunker Price Volatility
4. Interest Rate Volatility
5. Foreign Exchange Volatility
6. New Business Risk

Financial Risks
1. Use of Forward Freight Agreements ("FFAs")
2. Counterparty Risk
3. Liquidity Risk

Operational Risks
1. Insufficiently Experienced Staff
2. Insufficient Insurance
3. Critical Software or System Failure

*Willow Point* discharging logs in Shanghai
Market Risks

1. Earnings Volatility

The Group’s operating revenue principally comprises income generated from voyages carried out by its fleets of dry bulk vessels, tugs and barges and RoRo vessels. Such income is highly dependent on prevailing market conditions, as reflected in freight and job rates.

How do we manage our risk?

Pacific Basin Dry bulk
Through long term cargo contracts, we reduce volatility in our achieved freight rates. Cargo contracts typically have a term of 12 months to 36 months. We rigorously measure and manage our coverage levels. Our future revenue depends on our counterparties performing their obligations under these long term cargo contracts.

In addition, the Group enters into cargo contracts with a variety of international customers who operate in a wide range of industries across the world. Our diversified customer base prevents reliance on a single source of income and our top 10 customers account for around 31% of our total dry bulk revenue. For more details on counterparty risk management, please refer to the Financial Risks section.

The Group complements its portfolio of contracts with limited use of outward time charters and Forward Freight Agreements (“FFAs”) to further reduce volatility and its exposure to the freight market. For more details on the management of FFAs, please refer to the Financial Risks section.

PB Energy & Infrastructure Services
The Group’s towage business seeks to diversify the Group’s earnings through its harbour towage operation in Australia and its offshore and project towage business in Australasia and the Middle East. During mid-2009, a joint venture providing offshore towage and logistics services to support the development of a major new gas field offshore Western Australia was established, which stabilises the revenue streams of towage business.

PB RoRo
The Group’s RoRo business seeks to further diversify the Group’s earnings through exposure to the European short sea trailer market, which is engaged in the carriage of industrial and consumer products. In September 2009, our first RoRo vessel commenced service. Five additional vessels are due to be delivered between 2010 and 2011.
2. Vessel Value Volatility

The value of dry bulk vessels varies significantly with changes in vessel earnings and cost of replacement tonnage. The Group needs competitively priced and high quality vessels to provide its services to customers. As a result, the Group manages its exposure to vessel values through the purchase and sale of both newbuilding and second hand vessels.

How do we manage our risk?

The Group evaluates potential investments and divestments based on available relevant market information and estimated future earnings and residual values, so as to maximise returns to shareholders.

Newbuilding transactions

The Group contracts with leading, reputable and financially viable newbuilding shipyards or with other yards whose performance under the newbuilding contracts is guaranteed by first-class bank or by a financially trustable related company acceptable to the Group.

<table>
<thead>
<tr>
<th>Newbuildings on Order</th>
<th>Dry bulk</th>
<th>Tugs &amp; Barges</th>
<th>RoRo</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 28 February 2010</td>
<td>1 China</td>
<td>3 Japan</td>
<td>3 Korea</td>
</tr>
<tr>
<td></td>
<td>1 Denmark</td>
<td>3 Vietnam</td>
<td>2 Vietnam</td>
</tr>
</tbody>
</table>

Sale and charter back transactions

The Group considers possible sale and charter back of vessels on terms which may also include options for the Group to repurchase the vessels at predetermined times and prices during the charter periods. Such sales carry the benefit of transferring the residual value risk of the vessels from Pacific Basin to third parties, whilst enabling the Group to maintain operational control of the vessels.

Second hand vessel transactions

In the case of second hand vessel transactions, the Group considers the creditworthiness of its counterparties. When selling ships, sale contracts contain an industry standard clause of a 10%-20% pre-delivery deposit as security for the fulfilment of a buyer’s obligation. When buying ships, the risk of non-delivery would primarily be covered by an arrest of the vessel in question.
3. Bunker Price Volatility

The Group’s results may be significantly affected by the fluctuation of bunker prices as bunkers represent significant payments of the Group.

How do we manage our risk?

To mitigate the risk arising from future oil price fluctuations between the date a cargo contract is entered into and the date the cargo is carried, the Group hedges its expected future bunker requirement for each long term cargo contract by entering into bunker swap contracts or bunker forward contracts at the time of negotiation of each long term cargo contract.

4. Interest Rate Volatility

The Group’s interest rate volatility risk is associated with its interest-bearing bank loans.

How do we manage our risk?

The Group aims to manage its exposure to interest rate movements on its borrowings and minimise interest costs. Risk associated with interest rate volatility is mitigated through process of actively managing the fixed and floating interest rate components on our borrowings and through the use of derivative products such as interest rate swap contracts on our longer term borrowings.

The Group enters into interest rate swap contracts mainly with our lending banks with terms that typically match the profile and tenor of the underlying borrowings. In 2009, this resulted in an effective interest rate of approximately 1.9% (2008: 4.3%) per annum for our bank borrowings. The Group’s hedging portfolio is reviewed and adjusted on a regular basis to adapt to changing market conditions.
5. Foreign Exchange Volatility

The functional currency of most of the operating companies of the Group is the United States Dollar, as the majority of our transactions are denominated in this currency. A major part of the Group’s exchange rate fluctuation risk arises from the purchase of vessels by its operating companies in currencies such as the Japanese Yen and Euro that are different from the functional currencies of the operating unit.

How do we manage our risk?

The Group aims to manage or minimise the risk associated with fluctuations in foreign exchange rates through hedging its future foreign currency payment instalments to the counterparties by entering into forward foreign exchange contracts with our relationship banks on terms that match the payment schedule of those contracts until delivery. For businesses whose functional currencies are not US Dollar, we apply the same principles in managing their foreign exchange exposure. For newbuilding vessels, these contracts typically range between one and three years depending on the duration of vessel construction periods; our current furthest exposure is within 2011.

6. New Business Risk

The Group has expanded into new business areas that are outside its traditional dry bulk area of expertise. Risks associated with new businesses need to be understood, assessed and managed.

How do we manage our risk?

New investments are analysed and presented to the Executive Committee of the Board, which decides whether the balance of risk and reward is appropriate for the Group.

For new investments, operational management reporting and financial reporting are integrated through an interactive process undertaken during the initial stage of operations. This involves a review of the budgeting and forecasting process, integration of the accounting reporting system with the Group’s systems and the identification of the business risk issues and implementation of an appropriate internal controls and reporting system.
Financial Risks

1. Use of Forward Freight Agreements ("FFAs")

The Group enters into FFAs on a limited basis primarily as a method of hedging part of its forward freight exposure, where a ship is not yet booked with a ‘physical’ cargo contract or where a ‘physical’ cargo contract is not yet covered by a vessel commitment.

How do we manage our risk?

To manage the use of FFAs, the Board sets out policy under which the Group enters into FFAs. Such policy clearly defines authority levels and limits for hedging purposes and reporting requirements. FFAs normally run for a period of three to twelve months. The Board has established a Board subcommittee to review the Group’s mark to market exposure level during the year. Day to day responsibility of monitoring adherence to the policy is delegated to the Executive Committee.

2. Counterparty Risk

The Group’s counterparty risk primarily relates to its COAs, outward period charters and derivative contracts. The Group’s gross losses from uncollected freight and charter-hire receivables amounted to 1.0% (2008: 0.5%) of profit attributable to shareholders in 2009.

How do we manage our risk?

For trade counterparties, the Group has the following measures to mitigate this risk:

- Following industry practice, 95% to 100% of contracted freight is payable upon completion of loading, with the balance payable after completion of discharge. Additional revenue may arise from demurrage receipts relating to extensions of the voyage period, and is invoiced at completion of the voyage.
- Fixing long term contracts with large agricultural, industrial and mining companies or companies with a successful track record and reputation.
- Adopting and improving policies to assess the creditworthiness of customers to ensure vessels are chartered to customers with an appropriate payment history. Credit terms are normally not given to customers.

For FFA counterparties, the Group manages the counterparty risk mainly by:

- Trading with banks which have sound Standard & Poor’s credit rating.
- Trading through a clearing house, which acts as a third party to settle trading accounts and maintain margin monies.
- Assessment of counterparties in the same manner as applied for trade counterparties, where contracts were previously entered into via the over-the-counter market. We now contract substantially all our FFA trading through the clearing system.

For bunker hedge counterparties, the Group manages the counterparty risk by:

- Mainly trading with creditworthy oil companies and trading houses which have sound Standard & Poor’s credit rating.
3. Liquidity Risk

Liquidity risk relates to the availability of bank borrowings for funding the Group’s activities. Liquidity risk increases when the credit markets tighten.

**How do we manage our risk?**

The Group manages liquidity risk by ensuring sufficient funds are at its disposal at all times to meet its financial commitments including complying with covenants under loan agreements. This is achieved through actively managing the Group’s cash portfolio and ensuring that sufficient borrowing facilities are available to meet existing and future commitments according to the policy and guidelines approved by the Board.

The Group’s cash portfolio comprises mainly deposits with financial institutions with sound credit ratings with tenors ranging from overnight to 3 months depending on its cash needs. In addition, our preference has been to place deposits with institutions that have deposit protection by way of government backed guarantees.

The Group also invests in money market funds managed by financial institutions. The choice of institutions and funds is limited to those with sound credit ratings and well diversified portfolios to ensure that the risk is well spread.

Operational Risks

1. Insufficiently Experienced Staff

The Group is heavily reliant on the quality of its sea and shore based staff to minimise the operational risk of grounding, collision, pollution or violation of Group and statutory regulations. Such events could result in financial losses through loss of hire, cost of vessel repairs, third party claims and penalties for statutory violations or from loss of reputation caused by delay and customer dissatisfaction.

**How do we manage our risk?**

To achieve a high standard of ship operation through good management systems, the Group has established the internal Pacific Basin Management System which observes the requirements of the mandatory ISM Code and the voluntary International Standards ISO 9001, ISO 14001 and OHSAS 18001. In addition to annual internal audits of the Group and its fleet, the Group is audited annually for compliance with the standards by external auditors, Lloyd’s Register of Shipping.

In order to maintain a stable and competitive sea and shore based staff team, Pacific Basin has implemented the following measures:

- Sea staff are recruited from more than one country without placing undue reliance on one manning source.
- We continue to invest in the training and development of sea and shore based staff. Policies in this regard include pre-joining briefing and training of officers, on board training of crew by the Fleet Training Superintendents, the provision of training seminars and courses ashore for Masters and officers, training Manning agents to ensure compliance of employment policies, and the provision of in-house training and external seminars to shore based staff to keep them updated of industry and regulatory developments.
- An annual staff performance appraisal system is used to identify strengths and correct weaknesses in staff, and an incentive scheme is in place to encourage and retain employees.
2. Insufficient Insurance

The inherent risks incident to the operation of vessels include collision, sinking, piracy, other marine disasters, environmental pollution, cargo and property damage and loss and business interruption.

**How do we manage our risk?**

To minimise the likely financial consequences, the Group uses a range of insurance products, including hull and machinery, war risk, P&I, freight demurrage and defense, bunker insurance, charterers liability, purchaser interest, charterers advance profit, ship owner liability, cargo liability and property risk cover. We insure to the highest standards in the industry.

Insurances are only arranged with reputable underwriters. We use more than 15 well-known international underwriters at competitive premiums. The insured value of our fleet is not less than the vessels’ market values. Regular reviews of the insured values are carried out to ensure insurance coverage is adequate.

3. Critical Software or System Failure

Certain software and systems are critical to the smooth operations of the Group’s business. They include the database systems which record all of the Group’s business activities, the electronic communication system and the financial accounting system. Their failure could have a severe negative impact on the business and earnings.

**How do we manage our risk?**

The maintenance and protection of software and systems, and the development and implementation policies, are carried out by the Group’s IT department. It is responsible for the development of the Group’s IT infrastructure in accordance with the Group’s requirements and in particular the development and maintenance of anti-virus and firewall systems to protect our computer systems, servers, laptops and other fixed or portable computer devices from viruses or similar hazards.

The Group manages this risk by:

- Having an IT Steering Committee that regularly reviews and evaluates any system incidents reported.
- Developing and maintaining certain preventive or contingency measures to minimise the risk of system failures or to deal with the system breakdowns according to the Group’s IT policies.
- Providing external technical training to our IT staff.