Chief Executive's Review

Staying on course

Our CEO Mats Berglund reports on our performance

FINANCIAL RESULTS

Dry bulk market freight rates in the first half of 2017 were markedly improved compared to the same period last year, albeit from an historically low base. In this better but still challenging trading environment, our underlying loss reduced to US$6.7 million (2016: US$61.6 million loss) and EBITDA improved to US$56.6 million (2016: negative US$5.0 million and positive US$22.8 million for the whole of 2016). Basic EPS was a negative HK2.4 cents.

PERFORMANCE OVERVIEW

Improved but still challenging market conditions

With progressively fewer new ships delivering from shipyards and demand gradually recovering, the dry bulk freight market is returning to a healthier balance with demand in the first half outpacing supply. By mid-April, rates were at their highest in over two years, with demand improvements driven most notably by strong underlying demand for South American and US grain exports.

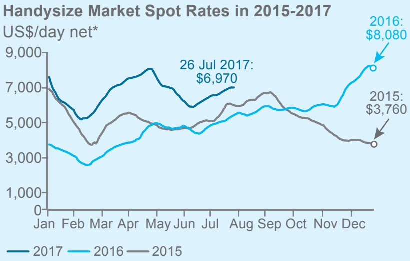
The overall improved earnings environment has resulted in much reduced scrapping which, combined with new ship deliveries, has led to a net growth of 2.0% and 1.5% in the global Handysize and Supramax fleets.

Despite the market declines in January and May, Handysize and Supramax average freight market indices for the first half of 2017 were around 70% higher than for the same period in 2016. As significant as this improvement is, market freight earnings are still not at profitable levels for most dry bulk shipowners.

"Outperforming in a better but still challenging dry bulk market"

Hong Kong, 28 July 2017

Handysize Market Spot Rates in 2015-2017



* excludes 5% commission
Source: Baltic Exchange, data as at 26 Jul 2017

Pacific Basin outperforms

Our average Handysize and Supramax daily TCE earnings of US$7,920 and US$8,920 per day net were up 30% and 51% year on year and outperformed the BHSI and BSI indices by 20% and 11% respectively.

This TCE premium – including the positive margins we generate with short-term operated ships that we charter to supplement our core owned and long-term fleet – is due mainly to our ability to draw on our experienced teams, global office network, strong cargo support and large fleet of high-quality substitutable ships in a way that optimises ship and cargo combinations for maximum utilisation.

Positive initiatives

During the half year, we completed our newbuilding programme with the delivery of seven newbuildings of the latest, efficient designs. The last of these delivered in May 2017.

We used the still weak asset values to purchase a secondhand Supramax and sell an older, smaller Supramax, thereby trading up to a vessel of better design and longer life at an attractive price. We also purchased two secondhand Handysize vessels. By 30 June we had expanded our owned fleet to 101 ships on the water out of about 250 ships that we operate overall.

Our new commercial office in Rio de Janeiro has generated valuable new business since it was established early this year to help grow our cargo volumes and support our many customers on the east coast of South America while enabling us to more fully cover all regions in the Atlantic.

In May, we relocated our headquarters to Wong Chuk Hang, about 15 minutes from Hong Kong's Central business district. We now benefit from a better, more energised, collaborative and productive office with a markedly lower rent which will result in significant cost savings over the coming six years.

We sold one towage vessel in June 2017 and have agreed the sale of our final tug for delivery in the second half of 2017. Together, these disposals will generate sale proceeds of approximately US$2 million and conclude our exit from this non-core activity.

DRY BULK OUTLOOK Possible market drivers in the medium term

OPPORTUNITIES

- Increasing government stimulus driving greater infrastructure investment in both China and the US
- Continued strong grain demand for animal feed due to shift towards meat-based diet
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Continued historically low new ship ordering and shrinking orderbook influenced by:
  - (a) the large gap between newbuilding and secondhand prices;
  - (b) new low sulphur and BWTS rules causing uncertainty about ship designs; and
  - (c) new accounting rules from 2019 discouraging long time charters
- Environmental regulations encouraging increased ship scrapping
- Periods of higher fuel oil prices encouraging slower ship operating speeds which decreases supply

THREATS

- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Increased protectionism dampening trade by favouring domestic supplies over foreign imports
- Increased new ship ordering if the price gap between newbuilding and secondhand ships closes
- Reduced scrapping due to improved market conditions may be insufficient to offset new ship deliveries
- Periods of low fuel prices supporting faster ship operating speeds which increases supply

BALANCE SHEET

With our final newbuildings all paid for and delivered, we had cash and deposits of US$248 million as at 30 June 2017. We drew down our remaining Japanese export credit facilities and other committed facilities following the delivery of our newbuildings resulting in net borrowings of US$705 million and net gearing of 40%.

STRATEGY AND POSITION

Well positioned for a recovering market

We believe the worst of the current dry bulk market cycle is behind us. However, the market improvement year on year was from a very low base, and more time, scrapping and limited ordering are required for a more normal market balance to be sustained.

The Handysize and Supramax segments have seen historically low ordering over the past 18 months which bodes well for the long term. However, while the dry bulk orderbook is shrinking, scrapping has reduced and the global fleet is still growing.

We believe that new low sulphur fuel regulations (effective from 2020) will lead to higher fuel costs and hence lower ship operating speeds. Also, ballast water treatment regulations require investment for compliance with effect from special surveys between September 2019 to 2024. Combined, these regulations will over time drive scrapping of older ships and ships of poor design, thus improving the supply-demand balance.

We continued to achieve reductions in our vessel operating costs – without impacting maintenance or safety – through scale benefits as our owned fleet has grown further.

We have healthy cash and net gearing positions which contribute to the strong corporate profile that sets us apart as a preferred, strong, reliable and safe partner for customers and other stakeholders.

We continue to look for and assess attractive ship acquisition opportunities to grow and renew our fleet with modern, high-quality secondhand ships or resales that can generate a reasonable pay-back and cash flow even in today's challenging market, and can reduce our average daily vessel costs.

We will continue to focus on our world-leading Handysize and Supramax dry bulk business where we have developed a strong competitive edge and an exceptional fleet.

Our strategy is to be the best operator in our space and maximise our fleet's utilisation and TCE earnings by leveraging all the key attributes of our business model. Minor bulk shipping demand is characterised by diversified geographical, cargo and customer profiles. This, combined with our large fleet of substitutable ships and worldwide office network, allows for the combination of trades to achieve higher laden utilisation, which is exactly our strategy and how we can deliver value over market earnings.

We thank you as always for your continued support.