CHIEF EXECUTIVE'S REVIEW

Global demand for minor bulks was lower year on year despite benefits of China reopening, mainly due to decelerating global growth, higher interest rates and ongoing conflict in Ukraine

Martin Fruergaard

Chief Executive Officer

Financial Results

In the first half of this year, we generated an underlying profit of US$76.2 million, a net profit of US$85.3 million and EBITDA of US$189.1 million. This yielded a return on equity of 9% (annualised) with basic EPS of HK12.9 cents.

Our underlying profit was negatively impacted as market freight rates declined due to an increased supply of vessel capacity through less congestion in ports after the relaxation of Covid mitigation rules. Global demand for minor bulks was lower year on year despite benefits of China reopening, mainly due to decelerating global growth, higher interest rates and ongoing conflict in Ukraine.

p.39 Group Performance Review

We continue to maintain a healthy financial position with US$375.1 million of available committed liquidity and have reduced debt while expanding our fleet. Our net borrowings now represent 7% of the net book value of our owned vessels. Additionally, we have increased our list of unencumbered vessels, with 65 currently unmortgaged.

The Board has declared an interim dividend of HK6.5 cents per share, which represents 51% of our net profit for the period. This decision is consistent with our distribution policy and reflects our confidence in our strong balance sheet, despite the current uncertainty surrounding global dry bulk demand and freight rates, which continues to impact our industry.

Positive Earnings and Competitive Cost Base

In the first half of 2023, our large **core business** generated US$96.1 million despite the weak freight market. Our average daily time-charter equivalent (TCE) earnings for Handysize and Supramax vessels were down 51% and 60% year on year to US$13,030 and US$13,700 net per day respectively.

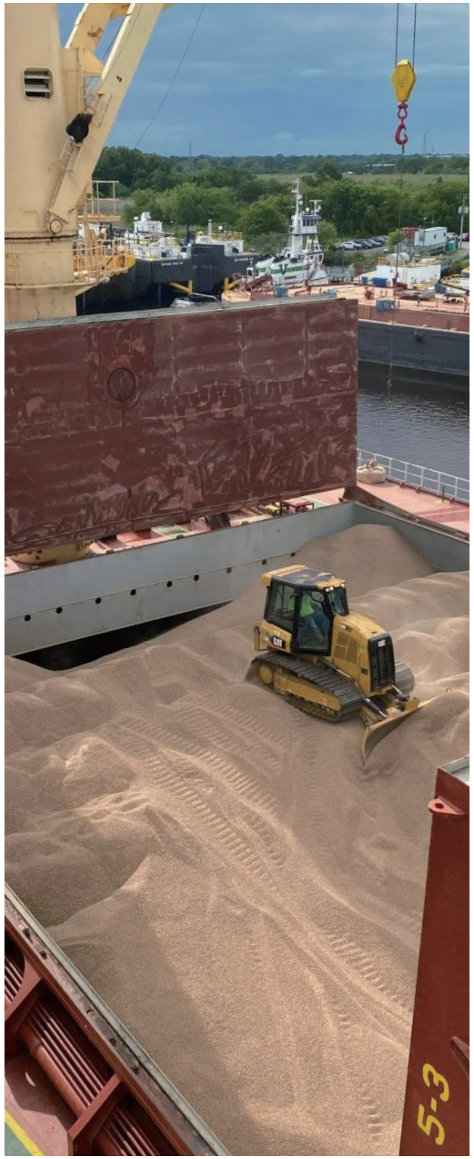
In the period we outperformed the average Handysize (BHSI 38k dwt tonnage-adjusted) and Supramax (BSI 58k dwt) indices by US$4,390 per day and US$3,770 per day respectively.

Our overheads, financing costs and vessel operating expenses continue to remain competitive with a P&L break-even level (including General and Administrative Overheads) of US$9,600 and US$11,190 per day for Handysize and Supramax vessels respectively. Expenses related to crew travel, quarantine and other pandemic-related manning costs continued to reduce over the period as Covid-related controls were relaxed. This has particularly benefitted our Handysize vessels, which have a higher proportion of Chinese seafarers, and has positively impacted our operating costs.

Our **operating activity** contributed US$17.0 million, having generated a margin of US$1,550 net per day over 11,000 operating days. Our operating activity complements our core business by matching our customers' spot cargoes with short-term chartered vessels, making a margin and contributing to our Group results regardless of whether the market is weak or strong.

We are reducing our debt following our amortisation profile and utilising interest rate swaps to limit our exposure to variable interest rate debt. This, along with our cash holdings, has helped us to mitigate any additional financing expenses caused by higher interest rates.

p.21 Our Performance



Short-term Headwinds

Despite an increase in overall dry bulk demand, market freight rates decreased in the first half of the year due to reduced congestion and increased efficiency in ports, resulting in more available supply of vessels. Minor bulk loadings decreased by 0.1% year on year due to decelerating global growth, which resulted from higher inflation and interest rates, as well as the ongoing conflict in Ukraine.

Grain loadings decreased by 3% year on year, primarily due to reduced grain export from Argentina caused by drought. In the United States, adverse weather conditions and logistical problems led to higher costs for transporting grain on the Mississippi River, which made United States grain prices uncompetitive, reducing grain export during the first half of 2023. Despite delays in the harvest and export process, Brazil was able to export a record amount of grain. The Black Sea region faces challenges in exporting grain and other commodities amid the persistent Ukraine conflict and the recent termination of the grain export agreement between Ukraine and Russia. Ukraine's grain production is likely to decline from 2022 levels due to reduced land availability for farming, less sowing of winter crops and lower crop yields as farmers reduce fertiliser use due to higher cost and limited availability.

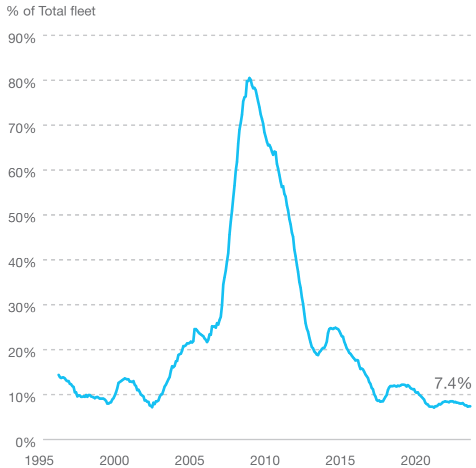
Minor bulk demand could remain negatively impacted for the rest of 2023 due to weaker global economic activity, coupled with a slow Chinese post-Covid economic recovery. However, policies in China to support the revival of infrastructure investment and residential housing construction could provide some potential for growth.

p.16 Market Review

Supply

Dry bulk vessel ordering remained muted over the period despite increased newbuild ordering in other sectors. According to Clarksons Research, ordering in the first half of 2023 was down 18% year on year and the dry bulk newbuilding orderbook is 7.4%, which is near a decades low. Shipyard slots remain limited, so a new order placed today is generally expected to be delivered in 2026.

Overall Dry Bulk Orderbook Development



The global dry bulk fleet experienced a modest growth rate of 1.6% net during the first half of the year, despite limited scrapping. This is slightly higher than last year's fleet growth, due to increased scrapping being offset by an increase in newbuilding deliveries during the first half of the year. The global fleet of Handysize and Supramax vessels grew by only 1.5%.

The expensive cost of newbuildings and higher capital costs will likely discourage newbuild ordering. Uncertainty about future fuels, vessel designs and technology required to meet decarbonisation regulations restrained ordering for dry bulk vessels. We anticipate that ordering of dual-fuel zero-emission mid-size dry bulk vessels will soon start, although high newbuilding prices remain a deterrent.

IMO's global EEXI (Energy Efficiency Existing Ship Index) and CII (Carbon Intensity Indicator) regulations came into effect in January 2023 and are expected to drive technical and operational measures to improve the carbon efficiency of existing vessels. EEXI (and specifically engine power limiters) is resulting in a one-time permanent reduction in maximum speeds for most vessels, which will limit the global fleet's ability to speed up to meet increases in demand. CII will result in progressively slower vessel speeds and accelerated scrapping as older and less-efficient vessels become incapable of compliance.

We expect scrapping to increase in coming years as increasing environmental regulations will encourage owners to phase out older, less efficient vessels and such increased scrapping would be positive for the freight market. Handysize and Supramax vessels over 20 years old constitute approximately 14% and 10% of the global Handysize and Supramax fleet respectively, and are likely to be potential scrapping candidates. Clarksons Research currently forecasts scrapping of 0.4% and 1.3% of the global Handysize and Supramax fleet in 2023 and 2024.

We anticipate that ordering of dual-fuel zero-emission mid-size dry bulk vessels will soon start, although high newbuilding prices remain a deterrent

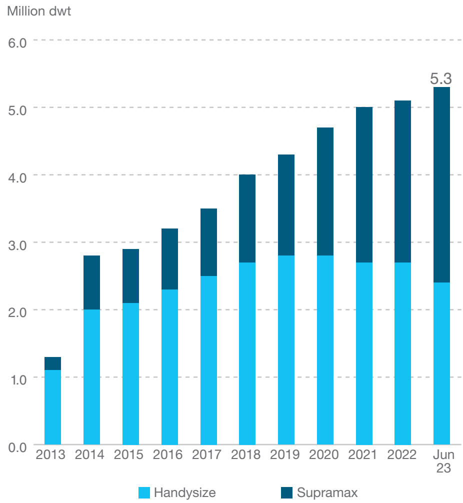
Fleet Growth Strategy

Our long-term strategy is to grow our owned fleet of Supramax vessels by buying modern, second-hand vessels, and to upgrade our older and less-efficient Handysize vessels with newer and larger ones. This improves our fleet efficiency, longevity and earnings capacity.

During the period we acquired more modern vessels including five Ultramax vessels, one Supramax vessel and one Handysize vessel, while selling two older Handysize vessels to capture value and adapt to stricter environmental regulations.

Our owned fleet deadweight carrying capacity has grown by 6% since early 2021, reaching a current total carrying capacity of 5.3 million deadweight, with 55% of this capacity now comprising Supramax vessels.

Significant Growth of Our Owned Fleet and Supramax Proportion



According to Clarksons Research, vessel values have remained elevated despite a more significant fall in freight rates. Over the period benchmark five-year-old Handysize and Ultramax second-hand prices increased 6% and 5% respectively. We believe asset prices for new and second-hand vessels will remain elevated due to increased newbuilding input costs and limited yard capacity.

We currently own 121 quality Handysize and Supramax vessels that are well suited for our customers and trades as we continue to optimise our fleet to more easily meet tightening environmental regulations.

Carbon Reduction Rules

In July 2023, IMO adopted a revised, more ambitious greenhouse gas (GHG) strategy with a goal for international shipping to achieve net-zero emissions by or around 2050, with indicative interim checkpoints. IMO's target is therefore now aligned with Pacific Basin's own net zero by 2050 target to which we committed in 2021.

To support the requisite transition to zero-emission fuels, IMO will now develop a package of mid-term measures, including technical and economic measures such as a GHG Marine Fuel Standard and a maritime GHG emissions pricing mechanism. We expect clarity on these measures by the end of 2025, with earliest entry into force in 2027. Meanwhile, IMO's revised GHG strategy will lead to tighter CII and EEXI rules for the period to 2030, with CII/EEXI revisions due to be completed in 2026 at the latest. We will closely monitor and prepare for changes to CII and EEXI, and for IMO's mid-term GHG reduction measures to come.

The consequence of these newly introduced targets will result in the need for vessels to further reduce speeds over time and, in due course, for accelerated scrapping as older and less-efficient vessels become no longer fit for trading.

These regulatory pressures are on the rise. From 2024, shipping will be included in the European Union Emissions Trading System (EU ETS). We are also working and preparing for further decarbonisation regulations such as Fuel EU and the US Clean Shipping Act & International Marine Pollution Accountability Act (see p.30) and an IMO carbon pricing measure, all of which will further incentivise vessel owners to transition to zero-emission vessels and fuels.

Sustainability has emerged as a critical concern for organisations globally, and at Pacific Basin this is no exception. Our decision-making and operating practices are increasingly influenced by our sustainability objectives.

Decarbonisation

In order to reach our target of net-zero emissions by 2050, we continually evaluate and implement technology and operational measures to improve the fuel efficiency of our existing vessels and we will invest in zero-emission vessels. Our target is for our whole fleet to consist of zero-emission vessels by 2050.

We continue to progress with the design of methanol-fuelled zero-emission vessels in collaboration with our two Japanese partners Nihon Shipyard Co. and Mitsui & Co.. We expect to be ready to contract our first generation dual-fuel zero-emission newbuildings by the end of 2024, with delivery expected to be well ahead of our original 2030 target.

p.29 Sustainability Highlights

Safety and Wellbeing

Governments' lifting of Covid mitigation rules have positively impacted our ability to rotate our crews and resume more frequent vessel visits by our shore-based staff for safety reviews, training and seafarer support. We appreciate the efforts of all of our crews during the difficult Covid period which kept seafarers away from their families for extended periods of time.

Our increased focus on mental wellbeing in recent years has been further enhanced with:

- enhanced training strategies and constant review of safety and wellbeing programs
- resumption of in-person, interactive officer training seminars
- online training extended to on-leave and on-the-job training in specialist areas
- engagement of two remote medical service providers 3Cube and Sea Bird Medicare to support our crews' physical and mental wellbeing
- additional psychometric screening tests for all seafarers prior to joining our vessels
- upgraded satellite data plans to offer our crews better internet access 24/7
- implementation of PB Families Programme with quarterly forums for families in the Philippines

In the short term we believe that global dry bulk demand will continue to be impacted by higher interest rates, inflation and weaker global economic activity with the potential for a recession in some economies

Safety continues to be our highest priority with a target of zero injuries. In the first six months of 2023, our vessels' crews recorded 9 injuries (including 5 lost-time injuries) in over 10.3 million man hours. We continue to encourage near-miss reporting which accounted for 871 reports (1H 2022: 883) through which officers and crew described safety incidents and near-misses, however minor, which serves as a valuable tool for the prevention of injury and loss.

Market Outlook

Global growth continues to decelerate as a result of higher interest rates and inflation. According to the International Monetary Fund, global GDP growth is forecast to slow from 3.5% in 2022 to 3.0% in 2023 which may have a negative impact on the demand for dry bulk commodities.

In the short term we believe that global dry bulk demand will continue to be impacted by higher interest rates, inflation and weaker global economic activity with the potential for a recession in some economies. While China's reopening has helped dry bulk demand, additional stimulus would be needed to boost demand further.

These headwinds will continue to have a negative effect on dry bulk freight rates in the short term and potentially for the remainder of 2023. In the longer term, we remain optimistic about the supportive fundamentals of our industry.

Dry bulk demand is expected to be supported by substantial global infrastructure investment, with a focus on emerging markets such as India and ASEAN countries, as well as concerns over food and energy security worldwide. China's reopening policies are expected to contribute to this demand through various sectors such as manufacturing, infrastructure, property and the green economy.

Our view is that environmental regulations, both existing and upcoming, will deter excessive new vessel orders for some time and support dry bulk rates. We also expect environmental regulations to induce slower speeds and increase the scrapping of inefficient vessels in coming years.

Our large and modern owned fleet of highly versatile Handysize and Supramax vessels, combined with our close customer partnerships, enhanced access to cargo opportunities, and high vessel utilisation, makes us well positioned for the future.

Appointment of Our New Chief Financial Officer

As previously announced, we are pleased to confirm the arrival of Michael T. Jorgensen as our new Chief Financial Officer from July 2023. Michael has worked in the shipping industry for over 35 years, holding several senior leadership positions at A.P. Moller-Maersk, Dampskibsselskabet Norden A/S and ASYAD Shipping Company.

Well Positioned for the Future

We are optimistic about the future of the dry bulk market, and anticipate underlying demand and supply fundamentals will allow us to generate steadier and more sustainable earnings over the long term. We anticipate growth in coal, grain and iron ore demand due to changes in trade flows and emerging market economies, as well as China's post-Covid government policies. Despite weaker economic activity in the United States and Europe, minor bulk activity remains robust due to China's post-Covid economic recovery and global green transition initiatives.

We do not expect significant new dry bulk vessel ordering due to the high cost of newbuildings, uncertainty over new environmental regulations, and the higher interest rate environment. The low orderbook and efforts to reduce carbon intensity will likely lead to lower speeds and increased scrapping in the coming years, potentially creating a shortage of vessels and providing long-term structural undersupply to the market.

We are actively working towards a sustainable future by reducing the carbon intensity of our existing vessels and pursuing complete decarbonisation by 2050. We also strive for ESG to become more fully embedded in our operations, decision making and culture across our business.

We are excited about the future of dry bulk shipping, supported by our modern fleet that can meet the diverse needs of our customers. Our staff operate globally with a local presence, which we utilise to drive insight and knowledge back into our business, so we can deliver the best service and access cargo opportunities. We believe that dry bulk shipping is a vital sector that connects the world and enables global trade.

Martin Fruergaard
Chief Executive Officer
Hong Kong, 31 July 2023

Strategic Direction Remains Unchanged

STRATEGY

- Maintain and grow our position as the leading minor bulk cargo-focused, integrated owner and operator servicing our customers' transportation needs around the world
- Continue our long-term Supramax fleet growth and Handysize renewal strategy
- Continue to divest older, less fuel-efficient vessels, crystallising value and ensuring our fleet can meet IMO GHG reduction target with greater ease
- Drive the design and development of zero-emission-capable, dual-fuel methanol Ultramax vessels, with the plan of ordering earliest 2024
- Keep our cash and balance sheet strong
- Be the industry leader on an earnings-and-cost-per-day basis

SPECIAL FOCUS AREAS

- Support our teams to ensure we continue to deliver a quality service to our customers while maximising our earnings
- Ensure our crews' physical and mental wellbeing and our vessels continue to operate safely and efficiently
- Enhanced focus on optimising our environmental performance to ensure compliance with carbon-efficiency requirements of IMO 2030 and coming regulations
- Further leverage the increasing amount of in-house data to improve our operational efficiency, cost and environmental performance, and ultimately to deliver additional value to our customers