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31st January 2011

To : The President of the Stock Exchange of Thailand

Subject : Submitting the Annual Review – 2010 of Precious Shipping Public Company Limited

ANNUAL REVIEW

2010 has ended with even greater confusion on the total supply of brand new ships in the future than when we began the year. Slippage, the difference between the DWT of new ships on order at ship yards at the beginning of the year and the actual deliveries of DWT of new ships from ship yards at the end of the same year, which was at 23% in 2008 increased to 41% in 2009 but then fell to 38% in 2010. With Slippage having such elasticity, clarity on the DWT of ships to be delivered from ship yards in future years has become the ever illusory number that no one can seem to get a proper grip on. We think that Slippage will retain its unpredictability and will fluctuate inversely with the strength of the BDI. Ship Yards that had virtually seen no orders for 5 quarters, starting in Q4'08 and ending in Q4'09, were so hungry for fresh business that they enticed buyers during 2010 with low prices and even lower stage payments prior to delivery; as a result, 2010 will go down in history as one of the strongest years in terms of the buildup of the order book. In the meantime, we see that net increase on a DWT basis for 2010 for the Dry Bulk Sector as a whole was 76 Million DWT or 15.8% with the fleet reaching a gigantic 555 Million DWT with another 12.5% expected in 2011 with a further 15.25% in 2012. The increases for 2011 and 2012 are based on the twin assumptions that Slippage will run at 50% for each of these years and there would be no scrapping of older ships. As we have already seen, slippage in 2010 has decelerated to 38% and so the increase in supply during 2011 and 2012 could be even stronger as we have assumed a slippage factor of 50%. This must be tempered by the amount of ships that will be scrapped during these two years. The financial situation at the ship yards, especially those that have been newly developed over the recent past, will become near impossible with black holes appearing where there used to be cash. We suspect that in the near term some of the younger and newer ship yards will disappear, others will reduce their existing capacity, there will be further consolidation among others, and some yards will go back to block-building and ship repairing whilst others will be converted to 'green' recyclers. Anecdotal evidence suggests that 3 Japanese ship yards have shut down; at least 6 South Korean yards have collapsed with another 6 in some form of financial stress (Jinse has just announced that it is to be liquidated); and Vinashin, the Vietnamese state owned ship yard, is struggling under a mountain of about USD 4.4 Billion of debt with their top 5 executives thrown into jail for good measure. On the demand front, we see a few clouds on the

horizon. With Quantitative Easing two (QE2) in full flow in USA we get the impression that all is not right economically in the largest market in the world. The European Union (EU) is struggling with its own 'bay of pigs' crisis which is the financial equivalent of a nuclear strike threat to their economic health and well being. With Greece and Ireland already in a mess, it is but a question of time before Italy, Portugal and Spain soon start squealing for help. China, the big mainstay of the dry bulk markets, has its own issues dealing with inflation and the asset bubble that is building in its real estate sector. China has tried to combat these twin evils by raising the reserve requirement ratio of their banking sector to a high of 18.5% at the same time increasing interest rates. These are the reasons why we feel that demand going forward may not live up to its billing as each of these three major players will have a dampening impact on the strength and direction of overall demand. As a result, if the freight markets as represented by the BDI were to stall and crash during 2011 then a lot of the orders placed during 2010 would fall by the wayside and die a natural death with the yards claiming the consolation prize of the 5 - 10% down payments received when concluding these orders. At the same time scrapping of older ships which has so far remained dormant could spring to life with at least 20% in DWT terms, of the existing dry bulk fleet that are over 20 years of age, heading for the scrap yards under such circumstances. As a point of reference, during 1986 when the BDI had stayed below 1,000 points, some dry bulk ships as young as 10 to 14 years of age were scrapped with the majority of bulkers that were scrapped being between 15 and 19 years of age. If we were to apply the 1986 age profile for scrapping to the world fleet in 2011 then at least 30%, if not more, of the world dry bulk fleet in DWT terms would be ready to head for the scrap yards.

To keep things in perspective on your Company, we would like to highlight the annual net profit/loss from the Restated US Dollar Financial Statements over the past few years.

Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Av. BDI for the year	**2,617**	**4,510**	**3,371**	**3,180**	**7,065**	**6,390**	**2,617**	**2,758**
Net Profit - $m	**24.79**	**110.10**	**154.22**	**92.63**	**96.48**	**148.14**	**88.09**	**35.16**
Av. No. of Ships	**28.39**	**44.63**	**52.89**	**54.00**	**44.97**	**44.12**	**32.79**	**21.37**
Net Profit/Ship - $m	**0.87**	**2.47**	**2.92**	**1.72**	**2.15**	**3.36**	**2.69**	**1.65**

Our result for 2010 must be viewed against the average of the BDI prevalent for the year as well as the smaller fleet size that we had in operation after the disposal of the older ships from our fleet. 2010 will be remembered as the year of consolidation when we shrank our balance sheet, reduced our fleet size and prepared for the growth that is to follow in the years ahead.

Awards and Accolades:

2010 has been crowned with the **December 2010/January 2011 issue of Asiamoney**, under their Corporate Governance Poll 2010, conferring the title of **Best Overall for Corporate Governance, Best for Disclosure and Transparency, Best for Shareholders' Rights and Equitable Treatment and Best for Investor Relations in Thailand to our Company!**

The Marine Money June 2010 'ranking' issue had PSL as the 6th best shipping company in the world based on our financial results of 2009! The methodology used by Marine Money for their rankings was a simple aggregate of 6 criteria: Total return to shareholders, Asset turnover, Profit margin, Return on Equity, Return on Assets and Price to book value. This is what Marine Money had to say about PSL in their ranking issue. "*But perhaps even more impressive was Precious Shipping's showing. In the six years the company has been ranked, Precious has been in the top ten, five of those years and the one year it missed it landed in 14th place. Consistency and transparency are its watchwords and the source of Precious Shipping's 6th place finish in the overall rankings and a 5th place finish in the financial strength rankings. It almost seems that it would not be an official ranking if Precious Shipping weren't at or near the top. While everyone thinks bigger is better, this company goes against the tide and sticks with its knitting, servicing its worldwide client base with its fleet of Handysize bulk carriers that are time chartered. What makes the finish even more remarkable is that it took place in the midst of a fleet renewal program, with 20 ships exiting the fleet during the year.*"

Investor Relations is an area where we accord the greatest importance and have our Managing Director handle the Press/analysts briefings part of investor relations. The **December 2010/January 2011 issue of Asiamoney,** under their Corporate Governance Poll 2010, conferred on our Managing Director the title of **Best Investor Relations Officer** in Thailand for the third year in a row. We also have our CFO and two other senior staff assisting in this area. In addition to the various Road Shows during the year we also attended the 4 quarterly SET Opportunity Days during 2010. We hope to continue actively with this important part of our Investor Relations Program in 2011 and beyond.

FINANCIAL HIGHLIGHTS (THAI BAHT TERMS) AND REVIEW OF THE YEAR:

In terms of operations, during the year under review, the Total Revenues of the Company were Baht 3,380.17 million [2009: Baht 6,408.88 million] and the Company earned a Net Profit of Baht 904.69 million [2009: Baht 3,047.06 million]. The Shareholders' Equity of the Company has decreased to Baht 16,749.48 million [2009: Baht 17,136.36 million] and the Total Assets of the Company have decreased only marginally in spite of the sale of 5 ships during the year to Baht 22,071.63 million [2009: Baht 22,140.13 million] mainly due to the advance installments of Baht 1,651.51 million paid during the year towards our Newbuildings (Orders for new Ships) and due to the net profit earned during the year with a part thereof being retained.

During the year, the Company earned Baht 1,098.85 million as Net Profit before Exchange Loss of Baht 112.24 million [2009: Exchange Gain of Baht 43.63 million] and Income Tax of Baht 81.92

million [2009: Baht 45.54 million]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 12,304 per day per ship as compared to USD 13,459 per day per ship for year 2009. The total revenues excluding gains on sales of vessels and equipment in absolute terms were lower than that of the previous year, mainly due to a decrease in ship operating days due to the sale and delivery of 5 older ships from our fleet and lower average earnings per day per ship in year 2010 as compared to year 2009. Absolute ship operating expenses, also decreased by about 49%, due to decrease in average ship running cost per day per ship and the lower ship operating days during the year. The technical downtime was an average of 8.44 days per Ship, which is very good considering the average age of the fleet of about 15 years in 2010. As a result of the good profitability and robust cash flows, the Company has enjoyed high level of liquidity during 2010 and has paid dividends of Baht 1,299.20 million during the year 2010.

We also undertook an "in-house" exercise to determine Total Return to Shareholders, which was calculated for the 17 years that we have been operating as a listed entity. Based on the closing share price as on Thursday the 16th September 2010 of Baht 18.20 per share (we started trading on the SET on the 16th September 1993) and assuming you had subscribed at the IPO, then, at the end of 17 years, you would have 13.76 times your initial investment!! This return does not assume any re-investment of the dividends into shares or any interest on the dividends received.

Our Fleet:

The fleet strength at the end of 2010 was 21 vessels with an aggregate capacity of 522,925 DWT, an average 24,901 DWT per ship, and an average age of about 15.43 years. **The Fleet Rejuvenation Plan** in terms of the New Ships being built at the ABG shipyard in India have already been highlighted in our Annual Report.

ABG Shipyard: As you are all aware, the New Ships being built at ABG have still to be delivered even though the first few ships are delayed beyond their contractual delivery dates. This non-delivery gives rise to a few questions. Since the orders were signed much before the yard facilities were built, the first question which needs to be addressed is whether the facilities are now built and in place and if yes, whether these facilities at the yard are of the desired standards? We are pleased to report that the yard facilities and infrastructure have indeed been built and are of the highest standards and a very modern, top-class "state-of-the art" facility is now in place. As such, we do not have any concerns on this score. The next question which needs to be addressed is whether the ships built so far, and currently being built, are and will actually be of the desired high standards and specifications expected when the orders were placed and when the specifications and designs were developed by us jointly with the Shipyard? We are pleased to report that the Vessels that are being built are actually of the desired specifications and of the highest standards and as Long Term Ship-owners/operators, we keenly

look forward to taking delivery of these vessels, which we shall be able to operate very efficiently with least trouble and minimum operating costs. The last question that needs to be addressed is whether the Shipyard is geared and ready now with the "execution capability" to deliver the series of contracted vessels on a "timely" basis? Unfortunately, this admittedly is the area of concern since the Shipyard does appear to be facing difficulties in this regard to build the necessary execution capability primarily because of their inability to secure sufficient number of skilled labor. Various efforts are being undertaken in this regard by the Shipyard and we continue to monitor the situation closely and we do hope to see a lot of progress on this front in the next few months to come. Under these circumstances we always have the option of either cancelling any of the ships that are later than their contractual delivery dates or of re-selling these 'late' ship building contracts to others or of re-negotiating a fresh contract/price for these 'late' ships. Discussions with the Shipyard regarding the problem of the first 3/4 delayed vessels are ongoing, and we hope to reach an agreement on the terms of a good solution very shortly now.

In accordance with our stated plan, we have already sold 25 ships during 2009/2010, completing the first phase of our rejuvenation plan. With the purchase of the Rojarek Naree (29,870 DWT, built in 2005 in Japan) and the Nalinee Naree (32,000 DWT, built in 2005 in Japan) we have embarked on the next phase of our rejuvenation plan to replace the 25 sold ships with younger, larger, better geared and more economical ships from the second hand market. We have recently announced the purchase of four new building resale Supramax ships from a Chinese ship yard for delivery during the year 2012. We have to complete the renewal program by buying another 19 more ships from the second hand market or resale candidates from the new building market. This will be the last piece of the puzzle to fall into place and should stand the Company in good stead for years to come. For most organizations, this would pose quite a challenge. In our case, things are a bit different. If you would recall, between September 2003 and September 2004 we went from 28 ships to 52 ships by purchasing 24 ships from the second hand market in the space of just 12 months. That was done at a time when the freight market had just started its really long bull run, so we managed that renewal/purchase program in a rising market. This time around, we wish to, once again, purchase 19 second hand ships when the freight market is going to be range bound between BDI levels of 1,000 and 2,000 points. The expected market environment between now and the end of 2011 would be a much easier environment for us to execute our purchase/renewal program than a rising market. As far as availability of ships is concerned, it is a non-issue. We are literally inundated with very young ships available for sale on a daily basis. If we were to simply go out and accept the asking price of the sellers, we could be done with our renewal of 19 ships from the second hand market in less than 3 to 6 months time! It is just that we expect prices may soften from their current level that is holding back such a decision as both the shipbuilding and ship financing businesses are in disarray. On the one hand, money is scarce and on the other, no one wants the new building they had ordered. In this environment, we can do very good deals via second-hand ships from weakened sellers or via troubled new building orders in weak hands to complete our replacement program. In a highly capital intensive business with very high leverage and

characterized by unpredictable and wildly swinging cycles, the timing of the purchase of your assets is possibly the single most important decision that has to be made.

Once this replacement has been done in a successful manner we feel that the economic viability and security of the Company would have been assured for the next few decades as we would have replaced the majority of our older fleet at historically low price levels. To that end, the Company will continue to be on the lookout for the right opportunities for additional fleet renewal as we would like to achieve an annual fleet strength of between 50 and 70 ships within the next few years.

Highlights of 2010:

The effect of the Global Financial Crisis still lingers with the baton being passed from the Banks to the various Sovereign States that are on the verge of collapse with Portugal, Ireland, Italy, Greece and Spain creating their own 'bay of pigs' crisis for the European Union. The EU has taken the route of fiscal tightening coupled with tight monetary policy as a way out of their current predicament. This will of course reduce demand emanating from these countries. The US has gone the other way. They have 'opened the taps' with QE2 and are hoping that this monetary stimulus will pave the way to better economic health. Whilst in China the mandarins have decided that they need to deflate the bubble in the real estate sector without popping it. To that end they have been increasing the Reserve Requirement Ratios of their banks to levels that are more than double those that are prevalent in the rest of the world. Despite this reduction in the availability of credit from the Chinese Banks, inflation has shown no signs of being tamed and has reared its ugly head leading the mandarins to raise interest rates. So there you have it, the three largest markets on the demand side are all suffering from the excesses of the various stimulus plans put in place at the height of the Global Financial Crisis by their governments. With no more stimulus left, it is up to the common man in the street to pick up the slack and support the transition from a stimulus/inventory-driven recovery to a demand-driven recovery.

China's Iron Ore imports according to preliminary Customs data, was an underwhelming 619 MMT or about 2% lower than the impressive new record set for 2009 at 628 MMT and the very first time in 12 years that imports have fallen! China is expected to import 740 MMT of Iron Ore in 2011. This import figure is contingent on import pricing parity versus domestic production/transportation costs. Provisional Chinese steel production for 2010 reached a staggering figure of about 625 MMT about 10% higher than the already phenomenal figure of 566 MMT in 2009. China is expected to produce 665+ MMT of Steel in 2011. Coal represents about 80% of China's energy requirements. Historically, China was self-sufficient in coal, but that is no longer the case. China imported about 126 MMT in 2009 and about 164 MMT in 2010. This figure is expected to reach 190+ MMT in 2011. Coal imports are expected to grow steadily but are contingent on import pricing parity versus domestic coal production/transportation costs.

The Baltic Dry Index (BDI) ended the year at 1,773 points, about 43% lower than from where it had started the year at 3,140 points, after having peaked at 4,209 points on the 26th of May 2010. The main reason why the BDI did not collapse during the year was due to the inordinate amount of congestion (by the end of 2010, global port congestion had reached record levels with nearly 7% of the entire dry bulk fleet at anchorage) especially in the Cape size sector. Coupled with the almost 164 MMT of Coal that China imported during the year and the ton-mile impact of this change, from being an exporter to becoming a very large importer, was another factor supporting the index. Finally, the clogged financial system resulting in trade imbalances being exacerbated leading to under-utilization of ships was the unexpected item that helped reduce the available supply of ships. It would be remiss not to mention the slower than expected delivery of new ships from yards, slippage was 38% for the year, which gave a big helping hand in supporting the index.

The BDI average for the year was 2,758 points, almost identical to the average of 2,617 recorded in 2009. To bring all this into some sort of time perspective, the long term average for the BDI (1985 – 2003) prior to the recent Bull Run was 1,358 points; including the Bull Run period (1985 – 2010) was 2,133; and during the Bull Run (2004 – 2010) was 4,265 points. With rate volatility increasing, long term contracts were only as good as the signature of the counterparty. Many large charterers were loath to honour these long term contracts and were using all means, legal and some not so legal or ethical, to wiggle out of their commitments. The expected large scale of bankruptcies was kept at bay thanks to the BDI's unexpected strength through the year. We suspect that 2011 and, maybe, 2012 will not be so kind with many entities being forced to the wall as time progresses. Describing the shipping markets as 'expecting the unexpected' may not be prescient but **'expecting the expected'** over the next two years may turn out to be a much more accurate description of the future.

To a large extent, our strategy of booking long term charters for our ships, at reasonably high rates, has therefore been vindicated yet again. **The earnings per day per ship** during 2010 for our fleet continued to reflect our strategy of avoiding the dramatic changes that would have been the case had our earnings mimicked the BDI. For 2010, we averaged earnings of USD 12,304 per day per ship which was very close to our forecast of USD 12,500. In terms of Operating Expenses, we managed to beat our target of USD 4,750 per day per ship reaching a figure of USD 4,725 per day per ship for 2010.

THE INDUSTRY OUTLOOK:

Ship scrapping was very anemic with just 125 ships being scrapped but 150 ships being delivered, resulting in a growth of 25 ships or 0.8%, with the world fleet increasing from 3,126 ships to 3,151 ships in our sector (10 – 30,000 DWT) during 2010. The reason for scrapping rates to have slowed down during the year has been the continued strength of the freight market. But it is impossible to escape the conclusion that, for the most part, the ever greater age of more and

more ships and the levels to which the freight markets have sunk to will lead to an upswing in scrapping rates in the very near future.

Strong supply of new ships expected for 2011 and 2012:

The Cape sector (90,000+ DWT – 1,287 ships of 220 MDWT at the start of 2011): 448 ships of 73.4 MDWT or 33.3% of the existing DWT are scheduled for delivery in 2011, another 278 ships of 50.9 MDWT or 23.1% to follow in 2012, another 91 ships of 16.8 MDWT or 7.6% to follow in 2013 with 22 ships of 4.2 MDWT or 1.9% to follow in 2014. In this sector, 147 ships of 25 MDWT or 11.3% will be over 22 years of age by 2014 and likely to be scrapped during 2011 to 2014 should freight rates remain at current levels.

The Panamax sector (60 – 90,000 DWT – 1,678 ships of 124 MDWT at the start of 2011): 302 ships of 23.5 MDWT or 19% of the existing DWT are to be delivered during 2011, another 341 ships of 26.8 MDWT or 21.3% contracted for delivery in 2012, another 109 ships of 8.3 MDWT or 6.7% contracted for delivery in 2013 with 11 ships of 0.9 MDWT or 0.7% for delivery in 2014. The saving grace in the Panamax sector is that 306 ships of 20.5 MDWT or 16.5% of the fleet will be over 24 years of age by 2014 and would likely be scrapped during 2011 to 2014 should freight rates remain at the current levels, thereby balancing out the fresh supply and restoring freight rates in the near future.

The Supramax sector (40 – 60,000 DWT – 2,163 ships of 109 MDWT at the start of 2011): 434 ships of 24.3 MDWT or 22.3% of the existing DWT are scheduled for delivery in 2011, another 269 ships of 14.8 MDWT or 13.6% are scheduled for delivery in 2012, another 98 ships of 5.3 MDWT or 4.9% are scheduled for delivery in 2013 with 24 ships of 1.3 MDWT or 1.2% to follow in 2014. In this sector, 327 ships of 14.5 MDWT or 13.3% will be over 25 years of age by 2014 and likely to be scrapped during 2011 to 2014, if freight rates remain at their current levels.

The Handymax sector (30 – 40,000 DWT – 1,109 ships of 39 MDWT at the start of 2011): 397 ships of 13.5 MDWT or 35% of the existing DWT are scheduled for delivery in 2011, another 222 ships of 7.8 MDWT or 20.1% in 2012, another 53 ships of 1.9 MDWT or 4.8% in 2013, with another 9 ships of 0.3 MDWT or 0.8% to follow in 2014. In this sector, 475 ships of 17 MDWT or 44.2% will be over 25 years of age by 2014 and likely to be scrapped during 2011 to 2014 if freight rates remain at current levels for any length of time.

The Small Handy sector (10 – 30,000 DWT – 3,151 ships of 63 MDWT at the start of 2011): 288 ships of 5.7 MDWT or 9% of the existing DWT are scheduled for delivery in 2011, another 104 ships of 2.2 MDWT or 3.5% are scheduled for delivery in 2012, another 22 ships of 0.5 MDWT or 0.7% in 2013, with no further ships for delivery in 2014. In our sector, 1,159 ships of 22.5 MDWT or 35.7% will be over 27 years of age by 2014 and likely to be scrapped during 2011 to 2014 if freight rates remain at the current depressed levels. With this

extremely large overhang of very old ships, the supply demand dynamics appear to be the strongest in the small handy size sector, the sector in which we operate more or less exclusively, of the Dry Bulk Tramp Freight market.

When reading the above supply side numbers please keep in mind that the Slippage in Delivery for 2008 averaged 23%, in 2009 this had widened to 41%, but then dropped to 38% during 2010. It remains to be seen what this figure will look like for 2011, 2012 and 2013 but we would not be surprised to see it cross 50 to 60% if the BDI were to come down and stay below 1,500 points.

Our Competitive Position based on our existing 21 ships plus the 25 ships on order (18 bulk carrier and 3 Cement ships in India and the 4 Supramaxes in China) and the roughly USD 600 million of funds available to buy another 20 second-hand replacement ships in lieu of the older ships that we have sold, makes us one of the biggest players in this sector of the market with one of the largest new building orders in hand. With the ownership structure in this sector being extremely fragmented, we are recognized as an established brand name with clients wanting to do business with us first before they take their custom to any of the other smaller players within the sector.

Additionally, our plan to rejuvenate our fleet with younger, larger, better geared and more economical vessels from the second hand market at, what could likely be, historically low levels would enhance our competitive position compared to our peers who have probably purchased second hand ships during the past 4 to 5 years at historically high prices.

THE ISSUES FACING OUR INDUSTRY:

With the Freight Markets hitting all time highs and plunging to a two decade low in 2008 with 2009 and 2010 emerging as years characterized by freight market confusion, most prudent companies that have very little debt on their balance sheets and a lot of cash in their pockets would likely consolidate the industry. This could happen through the judicious purchase of second-hand tonnage or new building ships at historically low prices or via mergers and acquisitions. By whatever means consolidation takes place, it is to be welcomed, as it can only make life a bit better for the participants in this industry.

Operating Costs generally eased in 2010 which was a welcome relief from the increasing trend witnessed for the past several years and which might have continued if not for the severe downturn in 2008. Almost all the cost components reduced from their previous levels, some more than the others, most notable being lube oils, repairs, maintenance, stores/spares and insurance. Younger ships are naturally less expensive to operate and maintain and the cost of stores/spares & repairs are also proportionately less. Most quality operators took advantage of the situation to rejuvenate their fleets by disposing off older ships. We expect this trend, of improving efficiency and saving costs through fleet rejuvenation will become more popular in 2011 also.

Lubricating Oil prices dropped in 2010, in line with the drop in prices of crude oil and other commodities. However, we expect these prices to increase in 2011 both because of an upsurge in oil prices and also because of the weakness of US Dollar currency.

As reported in our last Annual Review, the demand for officers and crews reduced from the peak levels witnessed in 2008 because of the drop in the number of ships trading, and with fewer than expected new-building deliveries from the shipyards. As a result, Crew costs plateaued out in 2010, but did not reduce, since most quality owners-operators did not cut wage levels and instead used it as a means to retain quality personnel.

Vessel values increased at the start of the year but then dropped during the second half. We expect values to remain volatile but could witness an increase in the second half, reverse of what was seen in 2010.

2010 was a benign claims year for most of the Protection & Indemnity ("P&I") insurers, or 'P&I Clubs' as they are known in the industry, and this provided a welcome respite from the high claims witnessed for the past 4-5 years when the shipping market was at its peak. The P&I insurance is unique for the shipping industry since it provides almost limitless insurance cover and top-quality claims-handling service for any and all sorts of situations that could arise from owning/operating ships. It is therefore extremely important that the P&I Clubs which provide such an insurance/service remain financially strong, and the low-claims scenario also helps keep down the premium. More importantly, all the insurers who were affected by the 2008 financial crisis and the resultant depression in 2008 and 2009, made modest to significant recovery on their investments because of the upswing in the equity markets. This investment income has helped shore up the finances of most insurers and lent stability to the insurance market as a whole. As a result, we expect the insurance premium rates to remain stable in 2011

For all the reasons cited above, our average operating costs per day per ship for 2010 was about 5% lower than the previous year; whilst we do not have figures for the industry norm, we expect we would have done better than others based on past experience.

IMO conventions are constantly updated to match demands for enhanced steps to protect the environment. Marine Environment Protection Committee of IMO recently approved major changes to MARPOL (Annex VI) regulations to reduce harmful air emissions from ships. Special sea areas for controlled discharges from ships have been increased. Rule requirements for carriage of certain bulk cargoes have become stricter than before. The Bulk Cargo Code (BC Code) has been replaced by the new International Maritime Solid Bulk Cargo code (IMSBC code). More countries are insisting on stringent ballast water management practices on board ships. As a result of initiatives from the International Labor Organization, working and living conditions of crewmembers on board are receiving increased importance. In order to formalize this and ensure uniform compliance, The International Labour Organisation (ILO) has adopted the Maritime Labour Convention 2006 (MLC 2006). A Maritime Labour Certificate (MLC) and a Declaration of Maritime Labour Compliance (DMLC) will be required to be obtained and placed on board to ensure compliance with the Convention for all ships above 500 tons in international trade. These

certificates are to be obtained from the Flag state and their recognized organizations after thorough verification and surveys on board each vessel. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world tonnage have ratified it. We expect the MLC 2006 to enter into force in December 2011 based upon EU's planned ratifications before 31 December 2010, and we are preparing in all respects to comply with this new requirement well before the dead line.

Focus on environment is becoming even more important. It is no longer just fashionable to say we are "Going Green"; organisations world-over are being pushed by their stakeholders to become more environment-conscious, not to speak of the newer regulations to ensure compliance. The Shipping industry, as reported earlier, gets an even closer inspection due to the sensational media coverage of oil-spill accidents such as the Exxon Valdez. The various measures adopted voluntarily by the Company to reduce its Carbon footprint has been explained in our CSR Statement; besides, there are specific IMO Conventions and regulations mandated by individual countries, to control the emission of Sulphur dioxide, Nitrogen oxides, Halons and CFCs from our ships which contribute to Green House Gases. These regulations are expected to become more stringent in the coming years. In addition, certain states in the USA are likely to require ships calling their ports to use shore power which is greener than the power generated on board ships. 'Bonnet' technology is another concept, presently available only in certain ports, which can receive the exhaust gas from ships for treatment before discharging into the atmosphere. These measures are still evolving and there will likely be operational problems; besides, these will most likely result in additional expenses for the ship owners/operators. To formalize the Company's commitment towards preserving and conserving environment and to reduce carbon footprint, the Company has obtained ISO 14001:2004 certification from Class NK of Japan. The ISO 14001:2004 provides a framework for a holistic and strategic approach to the Company's environmental policy, plans and actions, and will demonstrate that the Company is an environmentally responsible organization.

Maritime Training Center & Maritime Resource Management: As reported earlier, the Company has set up a full-fledged Maritime Training Center at its Head Office in Bangkok in March 2008. The PSL Training Center includes a state-of-the-art Bridge Navigation Simulator for training of maritime personnel. The Bridge Navigation Simulator recreates the actual bridge on a ship as it enters a major port and provides ideal conditions in which to train Officers in hands-on practices for effective bridge teamwork and competence in ship-handling and navigation. This is a significant step taken by the Company to train and equip its Officers and Crew to take better care of themselves and their ships, all with a view to ensuring safety of the crew and the ship by preventing accidents, thus also helping to preserve the environment. In the current scenario of a worldwide shortage of trained personnel, and the rapid promotions that is a natural result of such a shortage, this is a major step to provide specialized training that would otherwise have been acquired 'on the job'.

Maritime Resource Management (MRM) is a training program for ship's officers, engineers, pilots and shore-based personnel. The aim is to increase knowledge about human capabilities and limitations and to reinforce positive attitudes towards safety and teamwork. MRM is generally accepted to be one of the most efficient means of improving crew cooperation and minimizing the risk of accidents caused by human errors as well as failures in effective teamwork and resource management. The MRM course is authorized and licensed by The Swedish Club, a member of the International Group of P&I Clubs, and one of the few insurers providing Hull as well as P&I insurance covers. Apart from the MRM courses, the PSL Training Center has classrooms, Video-Based Training (VBT) and Computer based training (CBT) for the ship staff. Courses include MRM, Bridge Team Management (BTM), Bridge Team Competency (BTC), Officer Of the Watch (OOW), Chief Mate Course (CMC), Command Course (Command), Shipboard Safety Course (SSC), Maritime Professional Briefing (MPB), Maritime English training (divided into 5 course levels), Video-Based Training (VBT) and Computer-Based Training (CBT) programs for safety and efficient ship operations of deck and engine departments. During 2010, the Training Center has introduced lectures on VTS (Vessel Traffic Separation) & SMCP (Standard Marine Communication Phrases) within the BTM and MRM courses, with the aim of developing our officers' communication skills in communicating with a VTS officer using standard maritime phrases in various simulation exercises. The courses are upgraded regularly and provide a solid foundation to the Company's training activities and enable our Officers and Engineers to keep abreast of the latest developments in ship operations.

The PSL Training Center liaises very closely with the Technical Department in order to identify the training needs of officers and crew and special training courses are designed to suit them. In this manner, new training courses were introduced for Engineer officers ("Engine Room Management and Competency Enhancement" - "EMC" for Senior Engineers, and "Engineer on Watch" - "EOW" for Junior Engineers); future plans include courses on "stern tube sealing systems" and "ships' cargo gears with special focus on hydraulic", and "Shipboard Safety for Ratings"(SSR) for crew. The PSL Training Center has certain basic (but important) equipment such as a turbocharger and a purifier for practical training to accompany class-room theoretical courses. These will nicely augment the Bridge Simulator (which is essentially for Deck Officers) and enable the Training Centre to address the requirements of both Deck and Engine officers & crew.

The scourge of piracy, predominantly originating from Somalia, continues to be a cause for great concern. What was initially restricted to the Gulf of Aden area, has now spread to the whole of Arabian Sea/Indian Ocean. The entire ocean area from India to Africa and between Gulf of Oman and Madagascar has been notified as breach area by London war risks insurers. The so-called 'safe corridor' in the Gulf of Aden, which is patrolled by the naval war-ships of UN and other world powers, has little or no effect on combating piracy and the pirates seem to be able to pick up any ship at their will.

Although the shipping industry has been afflicted by piracy for centuries, it has assumed a totally new dimension in recent times ever since the Somalis turned it into a lucrative commercial enterprise. The swashbuckling pirate of the past is tame compared with today's heavily armed criminals scouring the expanse of ocean from Somalia to India for vulnerable vessels to hijack. It is important to note that Piracy is a commercial venture. Pirates are not really interested in the cargo. They just want the ransom money and use the crew as bargaining power. Of course, if the cargo is valuable they get a little more leverage to extract an even bigger booty.

The pirates now possess a number of fishing boats which are being used as 'mother-ships'. These provide the pirates with a degree of camouflage at sea, but more importantly, allow them to operate at much greater distances from the shore. They can carry greater supplies of food and water, and these fishing vessels are far more seaworthy than the Somali skiffs designed for fishing in coastal waters and calmer seas. Vessels operating in areas previously considered well beyond the range of Somalia are now under serious threat. We have urged all our vessels to initiate Best Management Practices. The Indian Ocean lacks the naval coverage provided by patrols in the Gulf of Aden. Commercial vessels are therefore left vulnerable when transiting the area. Naval warships appear to have a negligible impact on the success rate of pirate hijackings in the Indian Ocean.

Piracy attacks have also been reported in Bab el Mandeb (South of Red Sea) for a number of weeks. Attacks are also spreading further and further south, almost reaching the Mozambique Channel. Recently, ships have been hijacked virtually off the Indian coast!

The worrying developments that are taking place in Somalia indicate the threat to shipping in the Gulf of Aden and Indian Ocean will not subside in the near future. As there is no fear of retribution, not least because of the confusion as to what, if any, laws will apply to the pirates, the activities of the pirate groups continue unabated.

Ransom payments for the release of hijacked vessels continue to escalate. From an average of $1m in 2008 to around $4m this year, there seems to be no limit to the extortionate ransoms demanded by Somali Pirates.

According to the International Maritime Bureau ("IMB"), 39 vessels were hijacked in the first nine months of 2010, compared to 36 in the same period last year. This figure was only 11 in the first nine months of 2006 and shows that the problem has grown three-fold in the last 4 years. The IMB holds Somalia responsible for 35 out the 39 hijackings. According to the EU's anti-piracy force, as at the end of 2010, 26 vessels and 613 hostage seafarers remain under the control of Somali pirates, the vessels being anchored off the Somali coast.

The Royal Thai Navy: In view of the alarming situation, the Royal Thai Navy also despatched two of their warships to patrol the Gulf of Aden strip, primarily with a view to protect Thai flag vessels transiting the area in October 2010. This move was heartening and provided a degree of comfort to us. However, these warships have since been ordered to return to Thailand, and we take this opportunity to thank the Royal Thai Navy for their services.

MAST, our security service provider, has also extended their reach and service to the full stretch of the Indian Ocean. With their expertise, the vigilance and due diligence exercised by our ship staff, and strict adherence to the Best Management Practices at all times that our vessels are in this area, we have been able to navigate our vessels without any incident.

Apart from the Somali pirates and their attacks in the Arabian Sea/Indian Ocean, Nigeria and its offshore oil installations continues to be vulnerable to pirate attacks. The primary difference between the two is that Nigeria has an elected Government with clear policies to deter piracy in its waters and that helps localize the menace and also control/handle it.

JOINT VENTURES:

The status of our joint-venture investments is as follows:

- **Southern LPG Pvt Ltd. (SLPG):** The process of closing down this entity is nearly complete. We have completed the sale of all the major assets in this company with full receipt of sale proceeds and are now proceeding to close this Company in an orderly manner..
- **International Seaports (Haldia) Pvt Ltd**: This is our only investment in Ports now which is in the Haldia port (about 22.4% of the total capital) and is operational under our past port projects investments. This JV continues to operate very well and we have to-date received total dividends of USD 1.23 million, which works out to about 60% of our original Investment made in years 2002-2003. Our intention to increase our holding to a more strategic 33.55% by signing an agreement to buy a further 11.15% in the Port Company in December 2008 was not successful because of inability of the Seller obtaining regulatory approvals, and therefore, we were forced to cancel our Share Purchase Agreement since we did not wish to wait any longer. We have received full refund of advances paid for this purpose but, we hope to increase our shareholding at an opportune time in future.

IN CONCLUSION:

Demand

With the current business climate of a very fragile banking system coupled with demand from three of the largest markets in the world (US, EU and China) looking a bit shaky, the environment for the next 2 years is going to be extremely challenging. Our strategy of having booked longer term contracts in the past is worth its weight in gold today. The demand destruction, that has taken place in large part due to the shaky position of the financial infrastructure of the world, has been reversed to a large extent by the massive and globally coordinated Government bailouts as well as stimulus packages liberally employed during 2009 and 2010. Most importantly, banks need to re-open to the world their collective windows on trade finance which they had shut at the peak of the financial crisis in the middle of 2008, and which have still some way to go before they could be

termed as ‘normal’. The danger marker is, of course, the reaction of the world GDP when the life-support-drug to the economy of massive coordinated Governmental stimulus starts to wear off. The fear, which is still largely in the background, is that the world GDP may stumble which would have an adverse impact on demand growth. These will be the key trigger points to watch out for to indicate if better times are just around the corner.

Supply

Due to the extremely favourable freight markets of the last 5 years, most ship-owners have kept their older ships operating well beyond their useful economic life. Under normal freight market conditions, approximately 20% of the existing world fleet should have been scrapped. Under the present market conditions, this figure could rise and would only be constrained by the available scrapping capacity in the world. Those ships that are too young to be consigned to the scrap heap will be laid up.

With respect to the approximately 51% by DWT of brand new Dry Bulk ships scheduled to be delivered over the next 3 years to end of 2014, the financial crisis would subject their delivery to delays that would not be considered normal by any standards. An indication of what we could expect is evident from the slippage figures of 23% in 2008 increasing to 41% for 2009, 38% in 2010 and expected to cross 50% in 2011 and possibly 2012.

The supply side could come into balance with the demand side of the equation in a couple of years time just about when the banks should have got their act together and we could see another bull run in the freight markets post 2012. We think that 2011 and 2012 will therefore remain extremely challenging years where even the most astute and conservative ship-owners’ best laid plans will be sorely tested.

Financing

Fund raising will be one of, if not, the biggest challenge that ship-owners will have to face during 2011. In the past 5 years, shipping banks have assisted ship-owners to purchase something like USD 160 to 175 Billion worth of secondhand ships. Due to the rapid fall off in values, these ships have lost around 50 to 60% of their values from the peak reached in the first half of 2008. Most, if not all, such loans would have breached their loan to value covenants. This would allow the banks to call such loans into default and accelerate the prepayment of all outstanding loans. If such ships have got long term charters attached with good quality counterparties, then the banks may hesitate to call these loans into default though they would try and garner all the cash flow from such contracts to normalise the loan to value covenants as soon as possible. If such ships are also exposed to the spot markets, the banks would be in serious trouble with cash flows being unable to cover interest and/or principal repayment and the loan to value covenants having been breached.

Financial procrastination which characterised 2009 and 2010 with a "see no defaults, do no foreclosures, hear of no defaults" attitude may be something that will change dramatically in 2011. This is when the banks would call such loans into default, seize and auction the ships at the best possible price to recoup some part of the loans that they had made to the ship-owner during the purchase. This would stress out the balance sheet of the banks and, most likely, make the ship-owner go bust. If such a ship-owner has new ship buildings on order, which is more likely than not, and has got funding commitment from his banks, all such financial support would evaporate leaving the contract to build the new ships invalid and the financial stress would pass on to the shoulders of the shipyards and their banks. The shipping industry at present is just seeing the emergence of its own version of sub-prime toxic waste that threatens to engulf ship-owners, their banks, the shipyards and their banks.

This financial stress in the maritime world is what has given rise to the myriad of press statements emanating from ship-owners and shipping analysts around the world that the mountain of new ships on order for delivery between now and the end of 2014 could be just a mirage as more than half of them have already been cancelled. This might be the silver lining to the dark clouds threatening to engulf our entire Industry.

Concluding Remark

Considering all the above, we feel that we are poised to take advantage of the opportunities that the Dry Bulk Tramp Freight Markets will likely throw our way in the years ahead. We hope to deliver to our shareholders and other stakeholders the promise of this potential. This will in no small measure be due to the very dedicated and hardworking professionals that make up the office, as well as, the floating staff at PSL.

Yours sincerely,
For : Precious Shipping Public Company Limited

(Khalid Moinuddin Hashim)
Managing Director

(Khushroo Kali Wadia)
Executive Director