Ref: 2012-007

7 February 2012

To : The President of the Stock Exchange of Thailand

Subject : Submitting the Annual Review 2011 of Precious Shipping Public Company Limited

ANNUAL REVIEW

In our last Annual Report we had alluded to the confusion existing on the net **supply side of ships** expected during 2011 due to uncertain slippage of new building and scrapping numbers. Slippage is 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 at the end of the same year. Scrapping in 2011 had a stellar all time record of 33.3 MDWT dry bulk ships being torched. Slippage on the other hand was nowhere near our estimate of 50%, but came in at a lowly 28%. As a result, the net increase in supply for 2011 was a bumper 68 MDWT with a yearend number of 622.27 MDWT! This amounted to a 12.25% net increase in the World Dry Bulk fleet against our expectation of 12.5% basis zero scrapping (actual scrapping was 33.3 MDWT). With slippage and scrapping demonstrating such volatility, the net increase in DWT of ships in future years will remain an ever illusory number that no one can seem to get a proper grip on. We think that slippage and scrapping will retain their unpredictability and will fluctuate inversely with the strength of the Baltic Dry Index (BDI). We foresee that the net increase on a DWT basis for the Dry Bulk Sector in 2012 may match the 10% increase observed in 2011. This is assuming slippage at 30% and scrapping at 35 MDWT resulting in the dry bulk fleet growing by 63+ MDWT to 686 MDWT at the end of 2012. There are a few things that could turn the supply side forecast on its proverbial head and these are discussed below.

The **financial situation** at the ship yards, especially those that had been newly developed in the recent past, has become impossible, with widespread disappearance of both younger and newer ship yards. Other ship yards that have barely managed to survive have reduced their existing capacity via consolidation; some have gone back to block-building and ship repairing whilst others have converted to ‘green’ recyclers. HSBC Shipping Services succinctly put the shipbuilding versus finance conundrum into sharp perspective in their recent Points of View.

"To quote one example, a Chinese shipyard is sitting on two defaulted 115,000-dwt bulk carriers that should be ready in September 2012 and May 2013. The buyers claim that they are unable to finance the vessels and have had to pull out, no doubt forfeiting any installments already paid. This must be the tip of the iceberg. We know of six VLCCs sitting ready at a major Korean shipyard that are in default or in dispute with buyers. They were ordered for about $140m each and now worth arguably $90m each. Many contracts that were ordered before the infamous Lehman line in the sand, 15 September 2008, are delivering now or soon. They are all high priced, and many of them are already very delayed in the hope that the banking market would open up, only to find it closing down. Under formerly typical 4x10/60% payment terms the buyer would pay the first 40% with own equity, expecting to pay the 60% delivery installment with a bank loan. The assumption of the availability of bank funding close to the time of delivery (for an order that was placed 3-5 years earlier) has in many cases proved to be wrong. In situations where ships are already substantially built, they will be finished and they will appear in the market. Many ships that have not yet been started, or those that are at the early stages of construction, will probably be terminated. The undercapitalized and incorrect assumers will be punished, while the well capitalized and prudent will get their rewards as lack of credit trims deliveries."

On **the demand front**, we see large clouds on the horizon. **China**, the big mainstay of the dry bulk markets, has struggled in 2011 with issues such as inflation and the asset bubble building in its real estate sector. China had tried to combat these twin evils by raising the reserve requirement ratio of their banking sector to a high of 22% and simultaneously increasing interest rates multiple times during 2011. These measures have resulted in China's GDP growth decelerating quarterly from 9.7% to 9.5% to 9.2% before finally rounding off the year at 8.9%. At the same time, Inflation, which had peaked at 6.5%, appears to have been tamed to manageable numbers. Real estate prices have also come down and the mandarins running China have started to ease on the economic brakes. Reserve requirement ratios at their banks have been cut by 50 basis points. We suspect that this will be the first of many such measures to stimulate economic growth, and avoid economic hardship in 2012. A note of caution appears in the way that China has refused to ease restrictions on the real estate market - such as its tight lending rules, limitation on multi-home ownership, and constraining developers' demand for land. This may result in a more subdued construction sector for 2012, which accounts for almost 50% of all steel consumption in China. Despite expected slower growth, steel output and iron ore imports are forecasted to hit record levels in 2012, reflecting China's efforts to invest in public housing and infrastructure. According to Reuters, crude steel production is forecast to rise to 728 MMT and iron ore imports are expected to reach 720 MMT in 2012. Unfortunately, any stimulus measure adopted by China in 2012 would be nowhere near as steel intensive as the 2008-09 USD 586 billion stimulus that single handedly kept the dry bulk markets afloat during 2009 and 2010.

We have the distinct impression that all is not right economically in the **USA**, the largest market in the world. **The European Union (EU)**, including the UK, is struggling with its own 'bay of pigs' crisis which is the financial equivalent of a nuclear strike to their economic health and well being. Lingering debt problems at the sovereign and household levels in the US, UK and EU suggest that public and consumer spending will remain subdued for some time. As such, demand going forward may be more muted than expected.

The unintended consequence of diminished demand would be a dramatic increase in the **scrapping** of older ships, with 20% of the existing dry bulk fleet that are over 20 years of age, in DWT terms, heading for the scrap yards over the next few years. As a point of reference, during 1986 when the BDI was below 1,000 points, some dry bulk ships as young as 10 to 14 years of age were scrapped, with the majority being between 15 and 19 years of age. If we were to apply the 1986 age profile for scrapping to the world fleet in 2012 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 over the next few years.

To keep things in perspective with regards to Precious Shipping PCL, we would like to highlight the annual net profit/loss from our Financial Statements over the past few years.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Av. BDI	1,137	2,617	4,510	3,371	3,180	7,065	6,390	2,617	2,758	1,549
Net Profit - $m	(0.5)	24.8	110.10	154.2	92.6	125.1	148.1	88.1	35.5	23.6
Av. No. of Ships	29.22	28.39	44.63	52.89	54	44.97	44.12	32.79	21.39	21.91
Net Profit/Ship - $m	(0.02)	0.87	2.47	2.92	1.72	2.78	3.36	2.69	1.66	1.08

Our results for 2011 must be viewed against the prevailing average of the BDI for the year, as well as the smaller fleet size that we had in operation after the disposal of older ships from our fleet. 2010 and 2011 will be remembered as the 'consolidation years' when we shrank our balance sheet, reduced our fleet size and prepared for future growth opportunities.

Awards and Accolades:

In 2011, **IR Magazine** distinguished PSL as the 'Best investor relations in the Singapore market by a Thai company.' IR magazine has been recognizing firms with the best investor relations in Asia for over a decade. All the awards and the rankings for 2011 are based on a survey of more than 300 investors and analysts in the region. These surveys are designed by IR Insight, the in-house research arm of IR magazine, and conducted by the independent research firm, Mary Maude Research.

The Marine Money June/July 2011 'worldwide ranking' issue had listed PSL as the 45th best shipping company in the whole world based on our results for 2010. 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. As our fleet rejuvenation plan is realized, we hope to be back, and stay in, the top 10

ranks in the years to come. However, we were also ranked number 10 in the Financial Strength category. This indicates that we are well poised to implement our fleet rejuvenation plan successfully without undue risks or strain on our financial position.

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 3,433.51 million [2010: Baht 3,403.36 million] and the Company earned a Net Profit of Baht 718.52 million [2010: Baht 1,133.73 million]. The Shareholders' Equity of the Company has increased to Baht 15,356.50 million [2010: Baht 14,611.97 million] and the Total Assets of the Company have increased during the year to Baht 22,893.25 million [2010: Baht 19,961.89 million] mainly due to the advance installments of Baht 1,693.05 million paid during the year towards our Shipbuilding orders and due to the net profit earned during the year with a part thereof being retained.

During the year, the Company earned Baht 727.61 million as Net Profit before Exchange Loss of Baht 5.45 million [2010: Exchange Loss of Baht 6.52 million] and Income Tax of Baht 3.64 million [2010: Baht 82.61 million]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 11,265 per day per ship as compared to USD 12,304 per day per ship for year 2010. The Net Ship Operating Income (net of voyage disbursements and bunker consumption) in absolute terms was lower than that of the previous year, mainly due to a decrease in average time-charter equivalent earnings per day per ship in year 2011 as compared to year 2010. Absolute ship running expenses, also decreased by about 4%, due to decrease in average ship running cost per day per ship during the year. The technical downtime was an average of 7.61 days per Ship, which is very good considering the average age of the fleet of about 14 years in 2011. As a result of the good profitability and robust cash flows, the Company has enjoyed high level of liquidity during 2011 and has paid dividends of Baht 644.41 million during the year 2011.

We also undertook an "in-house" exercise to determine Total Return to Shareholders, which was calculated for the 18 years that we have been operating as a listed entity. Based on the closing share price as on Friday the 16th September 2011 of Baht 18.50 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 18 years, you would have 14.21 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:

At the end of 2011, our fleet had 25 vessels with an aggregate capacity of 704,258 DWT. This works out to an average 28,170 DWT per ship, and an average age of about 14.2 years. Our Fleet Rejuvenation Plan in terms of the New Ships being built at the ABG shipyard in India is discussed below.

ABG Shipyard: As explained in our last Annual Report, ABG appears to be facing difficulties in the timely deliveries of ships. We suspect that this is due to an insufficient supply of skilled labor, which has constrained their execution capacity. Various efforts are being undertaken by the Shipyard and we continue to monitor the situation closely. The first 34K ship was delivered to us in the middle of June 2011. The next two 34K ships should be delivered during 2012. If ABG continues at this rate of production, we will be lucky to get 3 ships a year from their facilities. Under these circumstances, we always have the option of cancelling the ships that are later than their contractual delivery dates, re-selling these 'late' ship building contracts to others, or re-negotiating a fresh contract/price for these 'late' ships. To date we have re-sold 5 such ship building contracts (3X34K and 2X54K) to unrelated third parties for a profit in excess of USD 3m per ship building contract.

We have started our **rejuvenation plan** with the purchase of the Rojarek in Q4 2009 (29,870 DWT, built in 2005 in Japan), the Nalinee in Q1 2010 (31,699 DWT, built in 2005 in Japan), Kanchana (56,920 DWT, built in China 2011), Kirana (56,823 DWT, built in China 2011) and Chamchuri in Q4 2011 (33,733 DWT, built in 2005 in Japan). The sister ship of the Chamchuri is delivered to us in Q1 2012. We will also get four new building resale Supramax ships of 57,000 DWT each from a Chinese ship yard during 2012. To complete the renewal program, expanding our fleet to between 60 and 70 ships, we plan to buy additional ships from the second hand market or resale candidates from the new building market over the next 12 to 24 months. 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, such a large expansion program would pose quite a challenge. However, our circumstances are different. From September 2003 to 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 program in a rising market. This time around, we wish to, once again, purchase between 15 and 25 ships when the BDI is range bound around 1,000 to 1,500 points. The expected market environment between now and the end of 2012 would be a much easier environment for us to execute our renewal plan 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 plan in less than 3 to 6 months time! It is just our expectation of softening prices that is holding us back, 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 ships they had ordered in great excitement and haste just a few years ago. In this environment, we can complete our renewal plan by arranging good deals for second-hand ships from weakened sellers, or for troubled new building re-sales.

In a highly capital intensive business with very high leverage and characterized by unpredictable and wildly swinging cycles, the timing of the purchase of ships 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, PSL 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 60 and 70 ships within the next two years.

Highlights of 2011:

The dry bulk market did not get off to a good start in 2011 with natural disasters playing a big part. Dry bulk cargoes were hit by the effects of some of the worst weather to knock Australia in years. Severe flooding damaged coal mines and railroads resulting in a major decline in cargo. Then Asia was hit by another natural disaster; in March one of the largest ever earthquakes struck Japan and created a vast tsunami. This created massive damage to ports, infrastructure, industry and another blow to seaborne bulk trade, as Japan's imports dropped.

Record numbers of dry bulk new-buildings were delivered from shipyards, smashing highs set in 2010. A total of 1,248 dry bulk ships of 101.17 MDWT were delivered during 2011. At the same time, owners have made efforts to recycle ships when scrap prices were high. This year has smashed the previous record for demolition volumes, with almost 33.3 MDWT dry bulk ships being scrapped. This has resulted in the global dry bulk fleet strength reaching 622.27 MDWT at the start of 2012.

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 default with Portugal, Ireland, Italy, Greece and Spain creating their own 'bay of pigs' crisis for the EU. 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 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.

China, the big mainstay of the dry bulk markets, has struggled during 2011 with its own issues dealing with inflation and the asset bubble that was building in its real estate sector. China had tried to combat these twin evils by raising the reserve requirement ratio of their banking sector to a high of 22% at the same time increasing interest rates multiple times during 2011. These measures have resulted in GDP numbers in China decreasing quarterly from 9.7% to 9.5% and then to 9.2% before finally rounding off the year at 8.9%. However, Inflation which had peaked at 6.5% appears to have been tamed to manageable numbers and real estate prices have come down. Reserve requirement ratios at banks have been cut by 50 basis points and we suspect that this will be the first of many such measures to stimulate economic growth and avoid any economic hard landing during 2012. A note of caution appears in the way that China has refused to lower the restrictions placed on the real estate mortgage market. This may result in a more subdued real estate sector for 2012 which accounts for almost 50% of all steel consumption in China.

The huge drop in ship asset values since 2008 has crippled ship-owners balance sheets. It has exposed shipping banks to elevated default risks with the number of financial restructuring and bankruptcies in the public domain skyrocketing. The maritime industry is headed into a credit crunch which will certainly constrain the supply side of shipping, a capital-intensive and highly leveraged business. We have already shown how this lack of funding has crippled many shipyards and hope that this will help further constrain the supply side.
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. With no more stimuli left, it is up to the common man in the street, especially in Asia and the other Emerging Market countries, to pick up the slack and support the transition from a stimulus/inventory-driven economic recovery to demand-driven growth. On the supply side, high balance sheet distress levels amongst owners, shipyards and banks are the silver lining over the dark clouds that loom ahead. This would help constrain and reduce the supply of new ships so that demand-side growth will eventually ignite the market, setting us up for the next cyclical recovery post 2013.

China's Iron Ore imports, according to preliminary Custom's data, was an astonishing 686 MMT in 2011 or about 11% higher than 618 MMT in 2010! According to Reuters, China is expected to import 720 MMT of Iron Ore in 2012. This import figure is contingent on import pricing parity versus domestic production and transportation costs. Provisional **Chinese steel production** for 2011 reached a staggering figure of about 684 MMT or about 9.5% higher than the already phenomenal figure of 625 MMT in 2010. According to Reuters, China is expected to produce 728 MMT of Steel in 2012. **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 126 MMT of coal in 2009; 164 MMT in 2010; and 11% higher at 182 MMT making it the single largest importer of coal in the world in 2011 displacing Japan from the pole position it had occupied continuously since 1975! Coal imports are expected to grow steadily but are contingent on import pricing parity versus domestic coal production/transportation costs. In a country that currently produces and consumes some 3,600 MMT of Coal per annum, with the figure expected to grow to 4,100 MMT by 2015, even a small change in China's coal imports could have a dramatic impact on the Dry Bulk freight markets.

The BDI ended the year at 1,738 points, 3% higher than its start of 1,693 points. The BDI bottomed out at 1,043 points on 4th February 2011 and peaked at 2,173 points on the 14th of October 2011. The main reason why the BDI recovered during the year was due to an inordinate amount of congestion in the Cape size sector and pent-up demand from Japan coming to the market in the second half of the year. Another factor supporting the index was the 182 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. The clogged financial system, which exacerbated trade imbalances resulted in under-utilization of ships, reduced the available supply of ships. Finally, it was the dramatic increase in the scrapping of 33.3 MDWT of dry bulk ships that supported the BDI.

The BDI average for 2011 was 1,549 points, 44% below the 2,758 recorded in 2010. To give this some 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 **counter-party risk** came home to roost. Long term contracts were only as good as the signature of the counterparty. Many large charterers were loath to honor these long term contracts, and were using all means, legal and some not so legal, to wiggle out of their commitments. In our last Annual Report we had suspected that 2011, and maybe 2012, would not be so kind, with many entities being forced to the wall due to the pressures being exerted on the freight market. We have been surprised by the spate of financial restructuring and bankruptcies that we have seen during 2011 but will be shocked if this does not escalate during 2012 before tailing off in 2013. Be warned, there is more pain on the horizon.

The earnings per day per ship during 2011 for our fleet continued to reflect our strategy of relying upon long term charters to lend stability and visibility to our earnings, thereby avoiding the dramatic changes that would have been the case had our earnings mimicked the BDI. For 2011, we averaged earnings of USD 11,265 per day per ship which was very close to our forecast of USD 11,500. In terms of Operating Expenses, we managed to beat our target of USD 4,650 per day per ship reaching a figure of USD 4,613 per day per ship for 2011. The combined average DWT of PSL's fleet, 28,170 DWT, closely mirrors the DWT of vessel used as the benchmark for the BHSI index. The BHSI had an annual average Time Charter rate of USD 10,902 therefore, given PSL's performance of USD 11,265 during 2011, it is clear that PSL's earnings outperformed the BHSI.

Industry Segmentation:

Handysize	2011 Combined Annual Average	2011 Annual Average	2011 Q4 Average	2011 Q4 Max	2011 Q4 Min
BHSI	$10,902	718	698	829	577
Pacific Rates	-	$9,500	$7,817	$11,298	$5,710
Atlantic Rates	-	$11,603	$12,209	$12,929	$9,887
PSL Handysize Rates	-	$11,291	$9,959	-	-
PSL Fleet Rates	-	$11,265	$9,922	-	-

The above table displays average time charter (TC) rates for Handysize ships operating in the Pacific and Atlantic basins on an annual and quarterly basis for 2011, and the combined 2011 average of all TC rates that make up the index. The table indicates that there is a substantial difference in the rates in the Atlantic basin compared to the Pacific basin. However, it is worth noting that on an annual basis, PSL was able to outperform the combined average rate, for the Handysize fleet.

Supramax	2011 Combined Annual Average	2011 Annual Average	2011 Q4 Average	2011 Q4 Max	2011 Q4 Min
BSI	$16,066	1378	1404	1612	1176
Pacific Rates	-	$10,278	$8,780	$12,477	$4,161
Atlantic Rates	-	$15,838	$16,256	$18,392	$14,025
PSL Supramax Rates	-	$9,249	$9,249	-	-
PSL Fleet Rates	-	$11,265	$9,922	-	-

The above table displays exactly the same information as the previous table, except that it contains Supramax TC rates and BSI data as opposed to Handysize data. Unlike the Handysize fleet, PSL's Supramax vessels only operated in the Pacific. Furthermore, as only 2 vessels were added during the latter part of the quarter, PSL did not have the benefit of a full quarter's worth of operations, as such the rates earned appear lower than the averages seen in the above table.

THE INDUSTRY OUTLOOK:

Scrapping was robust. 388 ships were removed or scrapped whilst 153 ships were delivered, resulting in a reduction of 235 ships or 7.5%, with the world fleet decreasing from 3,151 ships to 2,916 ships in our sector (10 – 30,000 DWT) during 2011. The continued weakness of the freight market is the main force driving the acceleration of scrapping rates. It also helps that scrap steel prices have remained reasonably robust during 2011. It is, however, impossible to escape the conclusion that the increasing age of ships and the depressed levels of the freight markets, will lead to an even greater upswing in scrapping rates in the very near future.

Strong supply of new ships expected for 2012 and 2013:

The Cape sector (90,000+ DWT – 1,561 ships of 265 MDWT at the start of 2012): 519 ships of 94.9 MDWT or 35.8% of the existing DWT are scheduled for delivery up to end of 2015. In this sector, 128 ships of 43.91 MDWT or 16.6% will be over 22 years of age by 2015 and likely to be scrapped during 2012 to 2015 should freight rates remain at current levels.

The Panamax sector (60 – 90,000 DWT – 1,814 ships of 135 MDWT at the start of 2012): 665 ships of 51.9 MDWT or 38.4% of the existing DWT are to be delivered up to the end of 2015. The saving grace in the Panamax sector is that 270 ships of 24 MDWT or 17.8% of the fleet will be over 24 years of age by 2015 and would likely be scrapped during 2012 to 2015 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 – 2,325 ships of 119.5 MDWT at the start of 2012): 645 ships of 35 MDWT or 29.3% of the existing DWT are scheduled for delivery up to the end of 2015. In this sector, 293 ships of 14.9 MDWT or 12.4% will be over 25 years of age by 2015 and likely to be scrapped during 2012 to 2015, if freight rates remain at their current levels.

The Handymax sector (30 – 40,000 DWT – 1,248 ships of 43.2 MDWT at the start of 2012): 462 ships of 16.2 MDWT or 37.5% of the existing DWT are scheduled for delivery up to the end of 2015. In this sector, 434 ships of 16.7 MDWT or 38.5% will be over 25 years of age by 2015 and likely to be scrapped during 2012 to 2015 if freight rates remain at current levels for any length of time.

The Small Handy sector (10 – 30,000 DWT – 2,916 ships of 59.1 MDWT at the start of 2012): 243 ships of 4.75 MDWT or 8% of the existing DWT are scheduled for delivery up to the end of 2015. In our sector, 972 ships of 22.4 MDWT or 37.9% will be over 27 years of age by 2015 and likely to be scrapped during 2012 to 2015 if freight rates remain at the current depressed levels. With this extremely large overhang of very old ships, the supply dynamics appear to be the strongest in the small handy size sector, the sector in which we operate most of our ships, 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 figure widened to 41%, dropped to 38% in 2010 then reduced to 28% in 2011. It remains to be seen what this figure will look like in 2012, 2013 and 2014 but we will not be surprised to see it fluctuate inversely with the BDI, especially if the BDI were to come down and stay below 1,500 points.

Our Competitive Position based on our existing 26 ships plus the 19 ships on order (12 bulk carrier and 3 Cement ships at ABG 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 will 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 two decade lows, most prudent companies that have very little debt on their balance sheets and a lot of cash in their pockets will 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 remaining participants.

Operating Costs generally eased in 2010 and 2011, which was a welcome relief from the increasing trend witnessed for the past several years, and that might have continued, if not for the severe downturn in 2008. Almost all the components have decreased from their previous levels, some more than others. The most notable cost reductions include lube oils, repairs, maintenance, stores/spares and insurance. Younger ships are naturally less expensive to operate and maintain, and the cost of stores, spares and repairs are proportionately less. Most quality operators have taken advantage of the current situation to rejuvenate their fleets by disposing older ships. We expect this trend, of improving efficiency and saving costs, through fleet rejuvenation, to continue in 2012.

There were no major changes in costs in 2011 except that with older vessels having left the fleet, **drydocking** costs declined. In line with lower earnings, **administration costs** in the form of bonuses also declined.

The requirement for qualified senior personnel continues to increase amidst a shortage due to reasonable employment available ashore in a much safer environment. As a result **Crew costs** increased slightly in 2011 and are forecast to increase further in 2012.

The Protection & Indemnity ("P&I") insurers, or 'P&I Clubs' as they are known in the industry, are having a dream run of successive low-claims years and this has helped the Clubs improve their finances. This insurance is unique as it provides almost limitless cover with top-quality claims-handling service for any situation that could arise from owning/operating ships. It is therefore extremely important that the P&I Clubs remain financially strong. However, the Clubs have had to contend with little or no income on their investments due to the depressed equity and bond markets. This has brought into focus the importance of prudent underwriting, i.e. collecting the right amount of premium commensurate with the underlying risk. The Clubs with which we are associated are financially robust, and as a result we expect our premiums for 2012 to remain stable.

For all the reasons cited above, our **average operating costs per day per ship** for 2011 was about 2% 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.

International Maritime Organization (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. 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 (ILO), working and living conditions of crewmembers on board are receiving increased importance. In order to formalize this and ensure uniform compliance, (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 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 2013 based upon EU's planned ratifications in 2012, and we are preparing in all respects to comply with this new requirement well before the dead line.

Focus on the environment is becoming even more important. It is no longer just fashionable to say we are "Going Green"; organizations world-over are being pushed by their stakeholders to become more environment-conscious, guided by compliance with the newer regulations. The Shipping industry, 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: As previously reported, the Company 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): 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) programs for safety and efficient ship operations of deck and engine departments. The Training Center also conducts 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 simulations. 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 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 use of "Electronic Chart Display and Information System" (ECDIS) is becoming mandatory for new ships built from July 2013. Many new vessels are already equipped with ECDIS. For existing vessels, ECDIS will become mandatory from 2018. ECDIS requires special generic training as well as specific training for each manufacturer's equipment. Navigating officers using ECDIS need to be suitably trained and certified before they can use it as a primary means for navigation.

With every other technical advance in navigation, such as radar, AIS and GPS, officers have gained an additional navigational aid. With mandatory ECDIS, on the other hand, a navigational aid will be taken away from them – the paper chart. ECDIS has to work and officers have to know how to work it. Any operational error could have disastrous consequence.

Realizing that there are not many institutes that can impart the required ECDIS training at present, the PSL training centre is preparing to equip itself suitably and get certification from the relevant authorities so that all our officers can be trained 'in house' and be fully prepared for the use of ECDIS on vessels.

The scourge of piracy, predominantly originating from Somalia, but now spread to the whole of Arabian Sea/Indian Ocean, continues to be a cause for great concern. The entire ocean area from India to Africa and between Gulf of Oman and Madagascar has been notified as a breach area by London war risks insurers.

In most cases, the added costs of protecting vessels and the additional insurance premium is directly or indirectly passed on to cargo interests, but the effect on crew morale is most visibly seen in declining officer and crew availability and a waning interest in a sea going career.

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 and dhows 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 fuel, food and water, and these 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 threat. The Indian Ocean lacks the naval coverage provided by patrols in the Gulf of Aden (GOA). 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.

Recently, a vessel was hijacked in a waiting area just off the port of Salalah, Oman. However the areas of heightened concern remain the Southern Red Sea, Bab Al Mandeb and GOA. The approach on a merchant vessel by a skiff in the intersection area of a protected corridor and the Mukalla/Bosaso route, despite the presence of naval assets, confirms the unpredictable and opportunistic nature of pirate action groups in this area. Attacks are also spreading further and further south, almost reaching the Mozambique Channel.

The worrying developments that are taking place in Somalia indicate the threat to shipping in the GOA 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. The increasing use of torture and violence by Somali pirates on crew members of hijacked vessels continues to prompt a change in opinion among industry members on the subject of armed guards for ships transiting the Gulf of Aden and Indian Ocean. Reported pirate attacks worldwide reached 266 in the first six months of 2011. This was an increase from 196 incidents in the corresponding period in 2010, according to statistics released by the International Maritime Bureau. Over 60% of incidents were attributed to Somali pirates. As of June 30, Somali pirates were holding 20 vessels and 420 crew hostage. Some 50 incidents were also recorded for Indonesia, Malaysia, Singapore Straits and the South China Sea in the first half of 2011.

The Royal Thai Navy: In view of the alarming situation, the Royal Thai Navy also dispatches their warships to patrol the GOA strip, primarily with a view to protect Thai flag vessels transiting the area. This move is heartening and provides comfort to us and our crew 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 now our only operational investment in Ports in the Haldia Dock Complex (about 22.4% of the total capital) under our port projects investments. This JV continues to operate very well and we have to-date received total dividends of USD 1.34 million, which works out to about 66% of our original Investment made in years 2002-2003. We find strategic value in this investment and hope to increase our shareholding at an opportune time in the 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. 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, 2010 and 2011. 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 world GDP when the life-support-drug to the economy of massive coordinated Governmental stimuli starts to wear off. The fear, which is still largely in the background, is that 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 to around 30%, 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 32.5% by DWT of new ships (202.8 MDWT) scheduled to be delivered over the next 3 years to the end of 2015, 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, 28% in 2011, possibly rising to 30%+ in 2012 and beyond.

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 2013. We think that 2012 and 2013 will therefore remain extremely challenging years when 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 2012 and beyond. 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 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 repayment of all outstanding loans. 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 to 2011 with a "see no defaults, do no foreclosures, hear of no failures" attitude may be something that will change in 2012. We have already had a prelude in the form of the various financial restructurings and or bankruptcies of large and mainly publicly listed shipping companies during 2011. Banks are being forced to bite the bullet and call such loans into default, sell the ships at the best possible price and recoup a part of the loans made to ship-owners. This would stress the balance sheet of the banks and, most likely, make the ship-owner go bust. If such a ship-owner has new ships on order, and has got funding commitment from his banks, all such financial support would evaporate leaving the contract to build the new ships invalid. This in turn would pass the financial stress 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, shipyards and their banks.

This financial stress in the maritime world has given rise to statements from ship-owners and shipping analysts that the mountain of new ships for delivery between now and the end of 2015 could be just a mirage, as a lot of them may have already been cancelled. This might be the silver lining to the dark clouds threatening to engulf our 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. We hope to deliver to all our 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.

Please be informed accordingly.

Yours sincerely,
Precious Shipping Public Company Limited

Khalid Moinuddin Hashim Managing Director	Khushroo Kali Wadia Director