

Ref : 2008-009

18th February 2008

To : Director and Manager of the Stock Exchange of Thailand

Submitting the Annual Review – 2007 of Precious Shipping Public Company Limited

Annual Review – 2007

To really grasp how great 2007 has been for our Company, we would like to draw your attention to the net profits (loss) from the Restated US Dollar Financial Statements over the last few years. In 2002 we incurred a loss of USD 0.48 million, in 2003 we earned a profit of USD 24.79 million, in 2004 it more than quadrupled to USD 110.10 million and for 2005 we had a blow out 40% higher net profit at USD 154.22 million followed by a more sedate USD 92.63 million for 2006, and an increased operating net profit number of USD 96.48 million (net profit excluding the one time capital gain on sale of ships, the one-time losses on Derivative Contracts and Income-Tax on the capital gain) even though we had an average of just 45 ships as compared to 54 ships for 2006! That's how great a year 2007 has been.

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 9,033.04 million [2006: Baht 9,250.76 million] and the Company earned a Net Profit of Baht 4,156.16 million [2006: Baht 3,715.12 million]. The Shareholders' Equity of the Company has increased significantly to Baht 14,064.93 million [2006: Baht 12,037.71 million] and the Total Assets of the Company have also increased in spite of the sale of 10 Ships during the year to Baht 15,018.14 million [2006: Baht 12,758.15 million] mainly due to the sale of the Treasury Stock and net profit earned with a substantial part thereof being retained during the year.

During the year, the Company earned Baht 3,230.65 million as Net Profit before Exchange Loss of Baht 175.17 million [2006: Exchange Gain of Baht 122.84 million], Gain on sale of Fixed assets of Baht 1,558.22 million [2006: Baht 0.85 Million], Loss on Derivative Contracts Baht 241.97 million [2006: Nil] and Income Tax of Baht

215.57 million [2006: Nil]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 13,147 per day per ship as compared to USD 11,387 per day per ship for year 2006. In spite of an increase in average earnings per day per ship in year 2007 as compared to year 2006, the total revenues in absolute terms were lower than that of the previous year, mainly due to the reduction in the average number of ships operated during the year because of the sale of the 10 oldest ships of the fleet. Absolute ship operating expenses, also, decreased by about 37% during the year 2007, due to the reduction in the average number of ships operated during the year. The technical downtime was an average of 17.5 days per Ship, which is quite reasonable considering the average age of the fleet of about 19.6 years in 2007 and the fact that some of the ships were dry-docked during the year well in advance of the statutory dates in 2008. As a result of the good profitability and robust cash flows, the Company has enjoyed extremely high level of liquidity during 2007 and has paid dividends of Baht 2,655.05 million excluding stock dividend in the ratio of 1:1 shares issued during the year 2007

ANNUAL HIGHLIGHTS:

The Bangkok Post, in conjunction with LEK Consulting, makes out a Scorecard every year to see the Total Shareholder Return (TSR) from different listed companies on the SET. In the Bangkok Post issue published on 18th May 2007, for the third year in a row, based on our annual results for 2006, PSL has been placed in the top slots of the rankings.

BEST AND WORST PERFORMERS

Top 20th percentile across all scorecards			TSR (%)			
	Market value (bt m)	Sector	1-year	3-year	5-year	10-year
■ Central Pattana	49,241	Property development	60.1	34.3	61.6	20.6
■ Minor International	34,446	Food and beverages	86.5	66.1	77.8	37.2
■ Precious Shipping	26,520	Transportation and logistics	77.0	21.5	113.8	31.8
■ Central Plaza Hotel	8,978	Tourism	59.8	50.8	46.6	34.8
■ Ramkhamhaeng Hospital	5,424	Health care	76.6	42.0	106.2	31.3
■ Minor Corporation	4,368	Commerce	85.5	80.6	79.1	28.0
■ Bangkok Ranch	4,052	Agribusiness	290.4	736.6	257.7	43.6

The Fleet Rejuvenation Plan began with the 30th August 2007 EGM of shareholders' endorsement of the new building contracts for twelve 34,000 DWT, double hull, open hatch, semi box shaped, craned log-carriers/bulkers from ABG Shipyard, India. These 12 ships will be delivered at the rate of 3 ships a year beginning in 2010 and completing in 2013. The rejuvenation continued with the

contracts signed in September 2007 for an additional three 54,000 DWT double hull, Craned, Supramax New Buildings from ABG Shipyard, for delivery in 2010 (1 ship) and 2011 (2 ships). Now that ABG Shipyard has confirmed availability of main engines for three more ships, we have just recently signed contracts for an additional three similar Supramax ships to be delivered in 2012. The latter contracts have to be approved at the AGM of the shareholders set for March 2008.

The Marine Money issue for October 2007 ranked PSL as the No.1 publicly listed shipping company in the whole world! They had made a mistake in their earlier compilation used in the June Ranking Issue but have since corrected the same. The methodology used by Marine Money for their rankings was a simple aggregate of the ranks based on 6 criteria: Total return to shareholders, Asset turnover, Profit margin, Return on Equity, Return on Assets and Price to book value. We believe that this is the first time ever that a Thai Corporate has been ranked number 1 in the world in any business category.

We also undertook an “in-house” exercise to determine Total Return to Shareholders, which was calculated for the 14 years that we have been operating as a listed entity. Based on the closing share price as on Friday the 14th September 2007 of Baht 34.25 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 14 years, you would have got a return of 18.34 times your initial investment!! This return does not assume any re-investment of the dividends into shares or any interest on the dividends themselves.

The One Time Extraordinary Loss that we have provisioned in Q3 of USD 6.84 million was a result of the step we undertook by entering into a Treasury Lock transaction (T-Lock) with a Foreign Bank, as a hedge to fix the Treasury Rate (which would have been the basis of pricing of the Bond) for the Bond Issue that would have raised some very long tenor funds at a very reasonable cost. Due to the after-effects of the sub-prime crisis, the extremely favourable conditions which existed in the financial markets have now disappeared or at best have rendered our Bond issue cost-ineffective in terms of pricing, as a result of which, we have to indefinitely put on hold, our plans to issue the Bonds. Consequently, in the absence of the “underlying”, we have since unwound the T-Lock with an actual loss of USD 7.07 million.

The Baltic Dry Index (BDI) ended the year at 9,143 points, 105% higher than from where it had started out the year at 4,452 points, after having peaked at 11,039 points on the 13th November 2007. Its average for the year was 7,070 points, some 222% of the average of 3,180 recorded in 2006! However, the BDI since the 13th November 2007 has been falling like a stone and had reached 5,615 points on the 29th January 2008, some 49% below its peak level. The index since then has improved marginally before starting another slower but downward trend and was at 6,032 points on the 5th February 2008. No better example can be given of the highly volatile nature of our business and the Industry and investors must always be mindful of this fact. To a large extent, our strategy of booking long term charters for our ships, at reasonably high rates, is therefore vindicated once again.

The earnings per day per ship during 2007 for our fleet continued to reflect our strategy to move from the spot market to longer term charters for our fleet and thereby avoiding the dramatic changes in earnings per day per ship as would have been the case had earnings followed the BDI movements. For 2007 we averaged earnings of USD 13,147 per day per ship which compared very favourably with our forecast of between USD 11,000 and USD 13,000 per day per ship. This figure also compared favourably with our past results of USD 11,387 per day in 2006, USD 14,449 per day in 2005, USD 13,248 in 2004, USD 7,870 for 2003, USD 5,854 in 2002 and USD 5,855 in 2001.

THE CHINA FACTOR continues to have a disproportionate impact on the dry bulk markets. Just to give you a flavour of what this means, we quote from a Credit Suisse Equity Research report dated 17th January 2008 stating that China was expected to import about 433.6 million MT of Iron Ore or 50% of the entire worldwide Iron Ore trade for 2008 and about 13% higher than the 383.6 million MT of Iron Ore estimated to have been imported into China in 2007! According to a researcher from the National Development and Reform Commission, China's State Planning Authority, has forecast Iron Ore imports will reach a staggering 650 million MT by 2010! Despite all the 'slow down' talks over the year, the steel production for 2007 reached a staggering figure of about 490 million tons. This would be some 17% more than the already phenomenal figure of 421 million tons in 2006 and the equally robust 389 million tons achieved during 2005 with expectations of 550+ million MT for 2008! Coal imports to China rose by 34% in 2007 to reach 51 million MT compared with 38.2 million MT in the previous year, according to a Bloomberg report. China is, both, the largest user and producer of coal and the country remained a net exporter in 2007 as its exports totaled 53.2 million MT. The

pattern of falling exports and increasing imports of coal is expected to grow this year with a forecast that China will be a net importer of coal in 2008 to the amount of some 15 million MT. The rapid expansion of the economy has caused this turnaround and on the 14th January 2008 Power generating plants in the southern provinces in China were shut because there was insufficient coal available to provide power. The SSY daily dated 23rd January 2008 had this to say, “Around 5% of China’s coal-fired power stations have been closed as heavy snowfall, high coal prices and transportation difficulties constrain coal supplies, Bloomberg reports. Some 90 power stations with a generating capacity of over 20,000 MW have been withdrawn from service. According to the country’s state media, the shortfall in electricity generation across the country is higher than during the previous energy shortfall in mid-2004. Chinese media report that steam coal stockpiles are now almost 40% below normal levels, sufficient for just eight days’ generation.” The propensity for China to surprise on the upside is not quite being given the importance that it deserves.

We also have India, Brazil and Russia making economic waves besides the sterling developmental efforts underway in the Middle-East that will add even more weight and pressure from the Demand side for Dry Bulk markets.

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. In addition to the various Road Shows during the year we also attended the 4 quarterly SET Opportunity Days during 2007. We hope to continue actively with this important part of our Investor Relations Program in 2008 and beyond.

OUR FLEET: As you may be aware, the Company had a total of 26 ships that were over 20 years of age at the end of 2007. Over the next 5 to 7 years, these ships need to be either sold or scrapped, and eventually replaced with younger and larger units. The fleet strength at the end of 2007 was 44 vessels with an aggregate capacity of 1.13 million DWT, an average 25,688 DWT per ship, and an average age of about 19.6 years. To that end, the Company has already commenced the Fleet Rejuvenation process as explained hereinabove. 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.

THE INDUSTRY OUTLOOK:

Ship scrapping was understandably anemic with a total of just 8 ships being scrapped and 88 new ships being delivered into the world fleet, resulting in a positive growth of 80 ships or 2.6% in the world fleet to 3,164 ships in our sector during 2007. The reason for scrapping rates to have ground to a virtual halt as the year progressed 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 will lead to an upswing in deletion rates in the near future regardless of the profitability of the underlying markets.

For 2008, the supply of new ships is quite strong. In the Capesize sector, 47 ships or 6.1% are scheduled for delivery in 2008, another 139 ships or 18.1% to follow in 2009 with 263 ships or 34.3% to follow in 2010. In this sector, 100 ships or 13.1% will be over 22 years of age by 2011 and likely to be scrapped during 2008 to 2011 should freight rates reach low enough levels. In the Panamax sector, there are 114 ships or 7.7% to be delivered during 2008, another 121 ships or 8.2% contracted for delivery in 2009 with 201 ships or 13.6% for delivery in 2010. The saving grace in the Panamax sector is that 228 ships or 15.4% of the fleet will be over 24 years of age by 2011 and would likely be scrapped during 2008 to 2011 should freight rates decline sharply enough thereby balancing out the fresh supply and restoring freight rates rather quickly. In the Supramax sector, 160 ships or 10.1% are scheduled for delivery in 2008, another 240 ships or 15.1% are scheduled for delivery in 2009 with 230 ships or 14.4% to follow in 2009. In this sector, 125 ships or 7.9% will be over 25 years of age by 2011 and likely to be scrapped during 2008 to 2011 if freight rates drop by any appreciable margin. In the Handymax sector, 68 ships or 7.3% are scheduled for delivery in 2008, another 161 ships or 17.3% in 2009, with another 155 ships or 16.7% to follow in 2010. In this sector, 307 ships or 33.1% will be over 25 years of age by 2011 and likely to be scrapped during 2008 to 2011 if freight rates drop by any appreciable margin. In the Small Handy Size sector, 136 ships or 4.3% are scheduled for delivery in 2008, another 118 ships or 3.7% in 2009, with another 78 ships or 2.5% to follow in 2010. In our sector, 1,141 ships or 36.1% will be over 27 years of age by 2011 and likely to be scrapped during 2008 to 2011 if freight rates drop sharply. 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 your Company operates more or less exclusively, of the Dry Bulk Tramp Freight market.

Our Competitive Position with our existing 44 ships and the 12 ships on order is that we have about 1.5% of the existing world fleet capacity which 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 every client wanting to do business with us first before they take their custom to any of the other smaller players within the sector.

Factors like congestion that affect the demand supply equation are still in evidence. The SSY Australian Coal Port Congestion Index finished 2007 at 14.8 days. This compares with an average of close to 17 days for the year and an average of around 8 days for 2006. Most of the improvement in congestion has been the result of a quota system implemented by Port Authorities in Australia and does not necessarily mean that the supply side bottle necks have been resolved or that demand has stopped growing at a faster pace than supply side efficiency gains.

US investment bank Jefferies points out in their shipping weekly issue dated 7th January 2008 that 'Last week, Rio Tinto announced the Company had ordered three VLOCs with delivery scheduled for 2012 continuing a trend of large mining companies increasing investments in dry bulk vessels. We believe the increased ownership in dry bulk vessels on the part of the large iron ore mining companies reflects the view that the large iron ore mining companies believe both shipping costs and asset values are likely to increase from current levels.'

China, which had become the single largest Steel exporter in the world during 2006 with their exports of 52 million MT, has further consolidated that position by exporting almost 63 million MT in 2007. We could reasonably expect to see this export figure rise by another 10/20+ million MT during 2008.

According to an article in Reuters dated 26 November 2007, Yin Zhen, with a research unit of the National Development and Reform Commission, the State Planning Agency in China, forecast that Coal imports into China would reach 1 billion MT in 2010 and 1.2 billion MT in 2020. We suspect that the figure should have actually read as 100 million MT imports by 2010 as other research publications have indicated that the coal import figures into China may reach anywhere between 150 and 250 million MT by 2010. Once again, such quantities of coal imports into China would have a rather meteoric impact on the BDI and the

freight markets in which we operate. Ship owners the world over, may soon be paying justified homage to “Old King Coal” before the decade is out!

As the Fairplay International Shipping Weekly, issue dated 03 Jan 2008 nicely summed up “...all of which leads to the conclusion that for this year, more than perhaps for any year since the fall of the Berlin Wall, the past is of only limited help in plotting the future. We think we know where we are, we think we know where we’d like to be next January, but there’s a rollercoaster ride ahead.” We can, but wish you a safe journey on the rollercoaster ride that the year 2008 promises to be.

The Howe Robinson Dry Cargo Annual Review concluded as follows “Strong increases in cargo demand will continue in 2008, and they are likely to be broadly matched by increases in tonnage supply. Rises and falls in congestion and other imbalances are a wild card which could cut either way. There will be an uneven flow of ships leading to extreme volatility. There is a bias towards second half year strength given the imbalance in iron ore flows. Downside risks to the whole commodity cycle are growing from bottlenecks which might adversely affect the cycle earlier than expected, and from over investment, particularly in ships and shipyards, which is likely to overshoot demand from 2009 onwards. On balance, we think market sentiment is underestimating the risks faced in the near term in a market, which, although well off its peak, is extraordinarily high. Looking ahead to 2009 and beyond, we think fleet expansion in the Cape sector will simply ask too much of the iron ore and steel industry, and a severe retrenchment can therefore be expected if the new yards deliver to order.”

THE ISSUES FACING OUR INDUSTRY:

With the Freight Markets hitting all time highs during 2004 and 2005, and, once again, in 2007, most prudent companies today have very little debt on their balance sheets with a lot of cash in their pockets which will be used to further consolidate the industry. This could happen through the judicious purchase of second-hand tonnage 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 will continue to face upward pressure from a few areas for a few years to come. With a scarcity of Repair Yard capacity, and increased queues of older ships waiting at their door steps, time spent in completing the usual dry

dockings or special surveys is anything but usual. Delays are the norm rather than the exception whenever ships need to visit dry docks or repair facilities. This, coupled with the rapid increase in cost of steel, spare parts, stores and paints, has helped push up dry dock, special survey, repairs, maintenance, stores and spares costs during 2007 for the entire industry. Lubricating Oil prices are linked with, and married to the price of Crude Oil per barrel. With Crude Oil prices being at almost all time highs, Lubricating Oil costs have gone up proportionately. With owners, in general, reluctant to scrap their vintage tonnage, and with new ships literally pouring in from ship yards, there has been a real scramble for officers and crews to man these ships. With the pipeline of new entrants into a seafaring career not having increased in proportion to the increase in the number of ships in operation worldwide, it has led to pricing power slipping into the hands of the seafarers resulting in a sustained pressure on crew costs for all owners. As a result, many owners are relying on inexperienced, untried and untested crew to man critical operational areas. With the increase in the number of ships in operation and with the number of ports not going up in proportion, the number of ships entering and exiting ports has gone up significantly resulting in over-worked Pilots and Tug Boats. With commercial pressures mounting to try and keep all operational delays to a bare minimum, many more accidents in the form of collisions and groundings are being reported. With the advent of technology and GPS navigation, all ships on a particular route follow the same identical track, making collisions a fairly common phenomenon. In a practice unique to the Shipping industry, all liability claims (of which the oil spill claims are usually the most expensive) above a threshold level are pooled and shared by individual shipowners through their respective liability insurers (called 'P&I Clubs'); as a result, we carry an exposure to the increasing frequency and magnitude of claims even when our own vessels are not involved. Furthermore, changes in regulations governing the P&I Clubs requiring them to maintain an acceptable solvency ratio gets reflected in higher insurance premiums payable by all their shipowner members. All these factors, and the greatly increased values of ships, are resulting in a general increase in Insurance costs. For 2007 our average operating costs per day per ship have gone up by about 11% and whilst we do not have figures for the industry norm for 2007, we expect that they will be higher than ours based on past experience.

IMO conventions are being constantly updated to match demands for enhanced steps to protect the environment. This has resulted in increased costs to ship owners and increased pressure on the regulators – the Flag State authorities and the

Classification Societies - who, much like ship owners themselves, are facing a huge shortage of trained personnel.

Maritime Training Center & Maritime Resource Management: The Company has decided to set up a full-fledged Maritime Training Center at its Head Office in Bangkok which includes a state-of-the-art Bridge Navigation Simulator for training of maritime personnel. Maritime Resource Management (MRM) is a training programme 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. The MRM course is authorized and licensed by The Swedish Club and the number of MRM training providers worldwide currently number 27 in all. The facility will be fully operational by March 2008. Apart from the MRM courses, we have also set up classrooms, video training and Computer based training (CBT) for our ship staff. Courses include but are not limited to MRM, Maritime English training, classroom lectures and CBT for safety and efficient ship operations. This will give a solid foundation to the Company's training activities and will enable our Officers and Crew to keep abreast of the latest developments in ship operations. 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 and Crew 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 ensure safety of the crew, safety of the ship by preventing accidents, thus also helping to preserve the environment.

The “cheap and easy money” environment in the shipping debt market witnessed in the past couple of years started to wane in the latter part of 2007 as the liquidity squeeze triggered by the US sub-prime crisis hit the financial system. A number of European shipping banks found it difficult to syndicate ship mortgage loans they had committed in the earlier part of the year. This has now resulted in an increase in costs for borrowers by way of higher margins and higher fees to be paid to the banks to syndicate new debt on terms much tighter than what they (borrowers) could achieve just a few months earlier. Not only has shipping debt now become costlier, but, most banks have actually scaled down their ship lending targets for 2008 and may even prefer to “pass” many potential transactions which they would have run after, not so long ago. We prefer to look at the silver lining in

these dark clouds that the liquidity squeeze would not only place us at an advantage over weaker and newer borrowers because of our strong financial position, but the shortage of easy money could also reduce the rash of newbuilding orders and slow down the potential supply of new ships discussed above in the Industry Outlook section.

JOINT VENTURES:

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

- **Southern LPG (SLPG):** The process of closing down this entity has been finalized. We have completed the sale of the major assets in this company and we should be able to close the balance sales completely in the near future.
- **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 project continues to operate superbly well and we have received dividends of USD 0.36 Million in 2007 from this investment.

IN CONCLUSION:

With the changed business strategy of going for longer term time charter contracts as opposed to the spot business, that was conducted during and up to 2003, we have been able to achieve steady cash flows whilst giving greater visibility to forward earnings. The steady cash flows, coupled with the forward visibility, have also helped us put in place a strategy that made us debt free in October 2006. We were therefore, in the right position, to order the 18 new buildings with ABG shipyard when the opportunity did present itself. We continue to look out for the next phase of expansion as and when a suitable opportunity was to present itself in the future.

The prospects of rapid future expansion should, therefore, not be ruled out. Our enviable track record of rapid pre-payment of debt should allow our future expansion to be funded solely from new debt raised at extremely competitive levels. With this in mind, we have extended the availability period (till end 2008) of the

credit facilities of USD 500 million from a consortium of leading Local and International Banks, which will enable us to react quickly to any such opportunity.

We have therefore set up a very strong growth-platform for your Company by being debt free; having a credit facility of USD 500 million to purchase second hand ships; and the 18 ship new building program that we have entered into with ABG shipyard. We feel that we are poised to take advantage of any other opportunities, that the Dry Bulk Tramp Freight Markets, may throw our way in the years ahead. With Gods Grace, we hope to be able 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, floating staff at PSL.

Yours sincerely,

For : Precious Shipping Public Company Limited

(Khalid Moinuddin Hashim)

Managing Director

(Khushroo Kali Wadia)

Executive Director