

Ref : 2009-010

6th February 2009

To : Director and Manager of the Stock Exchange of Thailand

Submitting the Annual Review – 2008 of Precious Shipping Public Company Limited

Annual Review – 2008

To really grasp the nature of the year under review we have to turn to a quote from that immortal classic ‘A Tale of Two Cities’ By Charles Dickens, ‘It was the best of times, it was the worst of times’. There could be no more apt description or definition of the year 2008 where the benchmark Baltic Dry Index (BDI) hit an all time high in the middle of the year and then plunged to a two decades low at the end of the same year.

To keep things in perspective, we would like to highlight the net profit/loss from the Restated US Dollar Financial Statements over the past 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 the net profit more than quadrupled to USD 110.10 million and for 2005 we had a blowout 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, income tax on the capital gain and the one-time losses on Derivative Contracts) for 2007 even though we had an average of just 45 ships as compared to 54 ships in 2006!

But 2008 has been a very different year with the BDI hitting an all time high in the first half but plunging to a two decades low at the end of the same year. Our second half performance, in fact, has been stronger than the first half due to the very conservative strategies that we have adopted. The net profit for 2008 has been an extremely healthy USD 148.14 million from just 44 ships!

Awards and Accolades:

We had written in our 2006 Annual Report ‘Though we did not win the award for Best CEO of the Year, our Managing Director Mr. Khalid M Hashim, was just one of eight CEOs who were nominated for this award (by the SET) and the only foreigner to boot!’ The year 2008 has been even better with the December 2008 issue of Asiamoney conferring the title of Best Executive in Thailand to our Managing Director! The web link for the actual report is: <http://www.asiamoney.com/Article/2071674/Best-managed-companies-and-executive-in-Thailand.html>.

The Marine Money June 2008 'ranking' issue had PSL as the 14th best shipping company in the whole world based on our financial results of 2007! 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.

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 2008 issue of Asiamoney conferred the title of Best Investor Relations Officer on us under their Corporate Governance poll results. In addition to the various Road Shows during the year we also attended the 4 quarterly SET Opportunity Days during 2008. Unfortunately, we had to miss the last Non Deal Road Show of the year that we had planned with Macquarie's London office due to the closure of the Suvarnabhumi airport between 25th November and 5th December 2008. We had a full three days of meetings with 18 different Institutional Investors lined up between London and Edinburgh which had to be cancelled. We hope to continue actively with this important part of our Investor Relations Program in 2009 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 8,659.81 million [2007: Baht 9,033.04 million] and the Company earned a Net Profit of Baht 4,938.59 million [2007: Baht 4,156.16 million]. The Shareholders' Equity of the Company has increased to Baht 16,177.45 million [2007: Baht 14,064.93 million] and the Total Assets of the Company have also increased to Baht 17,960.53 million [2007: Baht 15,018.14 million] mainly due to advance of Baht 1,480.97 million paid for Newbuildings (Orders for new Ships) and net profit earned with a substantial part thereof being retained during the year.

During the year, the Company earned Baht 4,898.83 million as Net Profit before Exchange Gain of Baht 61.13 million [2007: Exchange Loss of Baht 175.17 million], and Income Tax of Baht 21.37 million [2007: Baht 215.57 million]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 16,489 per day per ship as compared to USD 13,147 per day per ship for year 2007. The total revenues excluding gains on sales of vessels and equipment in absolute terms were higher than that of the previous year, mainly due to an increase in average earnings per day per ship in year 2008 as compared to year 2007. Absolute ship operating expenses,

also, increased by about 3%, due to an increase in average ship running expenses per day per ship during the year 2008 as compared to year 2007. The technical downtime was an average of 12.45 days per Ship, which is very good considering the average age of the fleet of about 20 years in 2008. As a result of the good profitability and robust cash flows, the Company has enjoyed extremely high level of liquidity during 2008 and has paid dividends of Baht 2,858.21 million during the year 2008

We also undertook an “in-house” exercise to determine Total Return to Shareholders, which was calculated for the 15 years that we have been operating as a listed entity. Based on the closing share price as on Tuesday the 16th September 2008 of Baht 16.60 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 15 years, you would have got a return of 11.21 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:

As you may be aware, the fleet strength at the end of 2008 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 21 years. To that end, the Company has already commenced the Fleet Rejuvenation process. 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 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 for 2007. 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 you need to make.

We are now embarking on the next phase of our rejuvenation plan. We plan to sell our oldest 25 ships over the next 1 to 2 years once their current contracts have expired and replace them with younger, larger, better geared and more economical ships from the second hand market. This will be the last piece to fall into place of the puzzle that began in September 2003 with the addition of 24 ships in 12 months’ time; increasing debt levels to what we felt at the time to be ‘overstressed’ levels; pre-paying the 9 year debt in just 2 years’ time and becoming debt free by 10th October 2006.

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 existing fleet at historically low price levels.

Highlights of 2008 - A Year of the Best and the Worst:

The Sub-Prime Crisis' impact on the Global Economy in general and the Shipping world in particular has been truly breath-taking. What began in early 2007, more as an irritant than a problem with real estate mortgages in America, turned into a full blown world-wide economic crisis by the middle of 2008. The sub-prime problem first crippled the American banking system. Thanks to globalization the sub-prime problem was exported and absorbed by the entire financial system in the world.

This led to a body blow to the banking system worldwide resulting in a dramatic slowdown in the economic health of all countries around the world. With banks in every country teetering on the verge of collapse, every government and central bank started a well coordinated and concerted effort to stop the malaise by lowering interest rates to all time lows and buying up large chunks of equity in their banks in order to provide liquidity and avert a run on their banks. As a result, most banks today are either directly or indirectly owned by their respective governments with sovereign guarantees in place to safeguard all deposits. In the meantime, whilst the banks are trying to repair their balance sheets that have been ravaged by the toxic waste of sub-prime issues imported from America, they have not been in a position to resume normal lending operations. Their balance sheets are still just not strong enough to continue with a "business as usual" policy. This has had a dramatic impact on Main Street which had nothing to do with the problems that had their origins on Wall Street.

Once Main Street or the Real Economy got infected, global economic growth started to slow down and actually entered a recessionary stage. This led to a slowdown in demand, which, when coupled with the lack of trade finance, due to the problems in the banking system, resulted in the almost screeching halt of trade flows and the dramatic collapse in the BDI. China's Iron Ore imports according to preliminary Customs data for 2008, though higher than the year before and still an impressive new record of 444 million tons and 15.9% higher than the corresponding figure for 2007, showed a dramatic slowdown in the last 2 to 3 months of the year. Chinese steel production for 2008 reached a staggering figure of just under 500 million tons

marginally higher than the already phenomenal figure of 490 million tons in 2007. However, for 2009, most steel mills in China, like their counterparts all over the world, have already stated that they would be cutting production between 20 and 30% on an annualized basis. Japanese crude steel production for Q1 2009 is estimated at 21.1 million MT. This would be 31.6% down year-on-year and 22% down from the previous quarter and the lowest level for Q1 since 1969!

The Baltic Dry Index (BDI) ended the year at 774 points, about 91% lower than from where it had started the year at 8,891 points, after having peaked at 11,793 points on the 20th May 2008 and touched its nadir at 663 points on the 5th December 2008. We cannot think of any other industry where the benchmark index hits an all time high and then touches a two decades low in the space of just 7 months of the same year. No better example can be given of the highly volatile nature of our business and the Industry than the violent gyrations of the BDI, and investors must always be mindful of this fact.

The BDI average for the year was 6,390 points, marginally lower but comparable to the average of 7,070 recorded in 2007. But this does not tell you the full story. With rates collapsing by the end of the year, long term contracts were only as good as the signature of the counter party. 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 wriggle out of their commitments. This has led to a cascading effect with brand name maritime organizations filing for creditor protection and using the courts to stave off their creditors to give themselves breathing room and time to force their counterparties to honour their commitments. Headlines proclaiming the bankruptcy of one or the other 'big name' have become 'normal' and we are going to see and read of more such news in the immediate 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 2008 for our fleet continued to reflect our strategy of avoiding the dramatic changes that would have been the case had earnings mimicked the BDI. For 2008, we averaged earnings of USD 16,489 per day per ship which compared very favourably with our forecast of between USD 15,000 and USD 16,000 per day per ship. This figure also compared favourably with our past results of USD 13,147 per day in 2007, of USD 11,387 per day in 2006, USD 14,449 per day in 2005 and USD 13,248 in 2004.

THE INDUSTRY OUTLOOK:

Ship scrapping which was understandably anemic in the first 3 quarters of 2008 has started to take off towards the end of the year with a total of 42 ships being scrapped and 97 new ships being delivered into the world fleet, resulting in a positive growth of 55 ships or 1.7% in the world fleet to 3,219 ships in our sector during 2008. The reason for scrapping rates to have ground to a virtual halt till the 3rd quarter 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 abysmal levels to which the freight markets have sunk to in the last quarter of 2008 will lead to an upswing in scrapping rates in the near future. As if to prove this point, as many as 25 vessels were scrapped in November and 58 in December 2008. Such high scrapping numbers have never been seen in one single month; the previous record was a month in 1997 when 1.7m DWT were scrapped, considerably lower than November's 2.0m DWT and December's 2.4m DWT. We feel that these numbers will only grow in strength as 2009 progresses as the problems associated with the lack of trade finance or letters of credit for scrap ships are slowly but surely being resolved.

Strong supply of new ships for 2009:

The Capesize sector: 207 ships or 23.7 % of the existing fleet are scheduled for delivery in 2009, another 408 ships or 46.8 % to follow in 2010 another 272 ships or 31.2 % to follow in 2011 with 86 ships or 9.9 % to follow in 2012. In this sector, 206 ships or 23.6 % will be over 22 years of age by 2012 and likely to be scrapped during 2009 to 2012 should freight rates remain at current levels.

The Panamax sector: 108 ships or 7.2 % of the existing fleet are to be delivered during 2009, another 216 ships or 14.4 % contracted for delivery in 2010, another 165 ships or 11.0 % contracted for delivery in 2011 with 84 ships or 5.6 % for delivery in 2012. The saving grace in the Panamax sector is that 355 ships or 23.7 % of the fleet will be over 24 years of age by 2012 and would likely be scrapped during 2009 to 2012 should freight rates remain at the current abysmal levels, thereby balancing out the fresh supply and restoring freight rates in the near future.

The Supramax sector: 238 ships or 13.9 % of the existing fleet are scheduled for delivery in 2009, another 335 ships or 19.6 % are scheduled for delivery in 2010, another 218 ships or 12.7 % are scheduled for delivery in 2011 with 61 ships or 3.6 % to follow in 2012. In this sector, 394 ships or 23.0 % will be over 25 years of age by 2012 and likely to be scrapped during 2009 to 2012, if freight rates remain at their current historically low levels.

The Handymax sector: 220 ships or 23.2 % of the existing fleet are scheduled for delivery in 2009, another 231 ships or 24.3 % in 2010, another 172 ships or 18.1 % in 2011, with another 77 ships or 8.1 % to follow in 2012. In this sector, 600 ships or 63.2 % will be over 25 years of age by 2012 and likely to be scrapped during 2009 to 2012 if freight rates remain at current levels for any length of time.

The Small Handy Size sector: 206 ships or 6.4 % of the existing fleet are scheduled for delivery in 2009, another 157 ships or 4.9 % are scheduled for delivery in 2010 another 86 ships or 2.7 % in 2011, with another 18 ships or 0.6 % to follow in 2012. In our sector, 1,729 ships or 53.7 % will be over 27 years of age by 2012 and likely to be scrapped during 2009 to 2012 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 your Company operates more or less exclusively, of the Dry Bulk Tramp Freight market.

Our Competitive Position with our existing 44 ships and the 18 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.

Additionally, our plan to rejuvenate and replace the 25 oldest ships from our existing 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 during 2004, 2005, 2007 & 2008 and plunging to a two decade low in 2008 most prudent companies that have very little debt on their balance sheets with a lot of cash in their pockets would likely consolidate the industry. This could happen through the judicious purchase of second-hand tonnage 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 continued to rise during 2008 but the recent downward plunge in the global shipping market leads us to believe that costs may have peaked in the 3rd quarter. Drydock, Special Survey, repairs, maintenance, stores and spares costs during 2008 remained high for the entire industry, but with the reduced number of ships in the queue for docking and life-extending repairs, costs will no doubt yield to downward pressure amid greater competition from shipyards reverting to ship repairs from ship building.

Lubricating Oil prices were kept under control in 2008 without any increase and, being linked with the price of Crude Oil per barrel, can be expected to be brought down and suppliers are being encouraged to comply with the trend.

With more owners now inclined to scrap their vintage tonnage, and with less new ships pouring in from shipyards, the scramble for officers and crews is expected to abate. While this may not result in an immediate reduction in crew costs for all owners, the frequent wage increases of the recent past will come to an end and there will be less reliance on inexperienced, untried and untested crew to man critical operational areas. This can only be considered as an improvement over the past few years.

Vessel values were very high during 2008 which resulted in high pay-outs on account of insurance premium. Vessel values have dropped recently in line with the recent downtrend in world shipping market, and consequently we expect insurance premiums to also reduce, although not exactly proportionate to the fall in vessel values.

Mounting commercial pressures to try and keep all operational delays to a bare minimum, coupled with the increasing work-load on Pilots & tug-boats, has increased the frequency and number of casualties, mostly collisions and groundings. While the loss/damage caused by these casualties are covered by insurance, it results in an increase in the premium payout for our Company even when our vessels have not had an accident. This is because of the mutuality principle of Protection & Indemnity (“P&I”) Insurance which is unique to the shipping industry, by which all the major P&I insurers share the costs of marine accidents through well-defined principles.

Finally, all the insurers have been impacted by the recent financial crisis and can be expected to raise premium rates to take care of the drop in investment income. On this basis, we expect the insurance costs to harden, notwithstanding the emphasis we place on safety of our vessel operations, both, on the vessel/crew side, as well as the environment. For 2008, our average operating costs per day per ship have gone up by about 20% over

the previous year; whilst we do not have figures for the industry norm, we expect that they will be higher than ours 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 cargo have become stricter than before. More countries are insisting on stringent ballast water management practices on board ships. As a result of initiatives from the International Labor Organization, living conditions of crewmembers on board are receiving increased importance. Due to these developments, inspections and surveys by Class Societies and Port State Control became more stringent and resulted in increased costs to ship owners and increased pressure on the regulators – the Flag State authorities and the Classification Societies - who, much like shipowners themselves, faced a huge shortage of trained personnel.

Maritime Training Center & Maritime Resource Management: In an attempt to reduce the number of maritime accidents caused by the problems of crew shortage and crew quality, the Company has set up a full-fledged Maritime Training Center at its Head Office in Bangkok and the facility was fully operational in March 2008. This 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 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. Apart from the MRM courses, we have also set up classrooms, Video-Based Training (VBT) and Computer based training (CBT) for our 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. 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 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'.

Piracy is the latest scourge facing the shipping industry. Although the shipping industry has been afflicted by piracy for centuries, it has assumed a new dimension in the Gulf of Aden and the Somali coast with ships being hijacked at frequent intervals. The swashbuckling pirate of the past is tame compared with today's heavily armed criminals searching the Gulf of Aden and off the east coast of Somalia for vulnerable vessels to hijack.

Pirates typically approach laden ships moving at no more than 14 knots using three or four fast fishing boats capable of moving at 30 knots. They use 'mother-ships' - usually captured smaller vessels - as a floating base from where to launch their operations. They carry rifles and RPGs and fire them to force the ship to stop. Laden ships with a low freeboard, such as tankers and bulk carriers are easy targets. The vessels are then boarded and the crew forced to take the vessel to a port under the control of Somali pirates where a ransom is demanded from the shipowner. Usually it takes about 2 months to negotiate the release of the captured vessel.

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 a bigger ransom. Recently they captured a vessel loaded with military hardware and also a fully-loaded supertanker. Many nations have committed their warships to the Gulf of Aden area to protect international shipping. The USA, Canada, EU, China, India, Russia, Malaysia and China, all have warships in the area but this does not seem to have deterred the pirates who continue to operate with impunity. 20,000 vessels are believed to transit the pirate affected areas each year. In 2008 111 ships reported being attacked and 42 were captured and a sum of \$40 million is believed to have been paid as ransom. As 2008 came to a close, some 14

vessels remained in the hands of the pirates and about 240 seafarers onboard these vessels were in their custody.

PSL has about 5 to 6 vessels transiting the Gulf of Aden every month. While there have been a few encounters with suspected pirates, we have been fortunate so far that not one of our vessels has been attacked or hijacked. We have approached the Royal Thai Government for assistance and we understand the Royal Thai Navy is discussing the issue with shipowners and the various ministries. Meanwhile, we engage specialized security teams on board our transiting vessels to provide training and additional vigilance, and generally boost the confidence of the Master and crew.

Finance: “If you want to know the value of money, go and try to borrow some.” – This quote by the wise Benjamin Franklin has perhaps never been as relevant as it was in the latter half of last year and is today. We believe it might probably get worse before it gets any better! However, we did manage to put in place the funding for our newbuilding orders just in the nick of time before it all exploded and moreover, managed pricing levels which we can only dream about today. We remarked last year that we prefer to look at the silver lining in the dark clouds of the liquidity squeeze which would place us at a relative advantage over other leveraged and weaker borrowers, but it has turned out to be more than just a “lining”, with a number of Banks almost closing shop as far as new lending is concerned. The “target” for most banks, we are told, is better to do nothing rather than do something even remotely risky. Amidst all the turmoil during the last quarter, we also commenced discussions with our lenders for extension of the availability periods of our existing facilities for buying second-hand ships and while negotiations have been difficult, we are confident of a satisfactory resolution, not just because of our reputation but also on account of the excellent relationship we enjoy with all our banks and of course their unstinted support

JOINT VENTURES:

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

- Southern LPG Pvt Ltd. (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 JV Company continues to operate very well and we have received dividends of USD 0.32 Million in 2008 which work out to about 15% of our original Investment and these dividends are expected to continue steadily and even increase in future. Hence, when the opportunity presented itself when our existing partner wanted to exit, we seized the opportunity to increase our holding to a more strategic 33.55% by signing an agreement to buy a further 11.15% in the JV Company in December 2008, whereby we would now hold more than just a minority stake which could be important for us in future in case we wish to divest our Investment.

IN CONCLUSION:

Demand

With the changed business climate of demand for shipping having virtually fallen off a cliff 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, will only be reversed and restored once confidence returns to the banking system and banks start lending 'normally'. 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. These will be the key trigger points to watch out for and that will tell us that we have turned the corner in the demand cycle and that better times are just ahead.

Supply

Those of you who have long enough memories would recall that the last time the BDI was at the current low levels during 1986, brand new ships went into layup yards without ever earning a single dollar for their embarrassed owners. At that time Zero rated time charters were more the norm than the exception and ships as young as 8 years old were consigned to the breakers torches.

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, and we are today very far away from any form of normality, approximately 25% of the existing world fleet should have been scrapped. Under the present market conditions, this figure could rise substantially 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 60% of brand new Dry Bulk ships scheduled to be delivered over the next 4 years, the financial crisis has already put paid to approximately half that number if we are to believe the various press reports on this subject. The balance half would be subject to delays that would not be considered normal by any standards.

All in all, the supply side looks about ready to come into balance with the demand side of the equation just about the time that the banks should have got their act together and we could see another bull run in the freight markets in the not too distant future. We think that 2009 and 2010 will 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 2009 and 2010. In the past 4 years, shipping banks have assisted ship-owners to purchase something like USD 140 Billion worth of secondhand ships. Due to the rapid fall off in values of most of these purchases, in the dry bulk sector, ships have lost more than 60% of their values from the peak reached in the first quarter of the year to the last quarter of 2008, most if not all such loans would have breached their loan to asset 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 counter parties 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 asset 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 asset value covenants having been breached.

This is where the relationship between the owner and the bank will start to make a huge difference. If that relationship is not built on a rock solid foundation then the chances are that the banks would call such loans into default, seize and auction the ships at the best possible price to recoup some small 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 have evaporated leaving the contract to build the new ships invalid and the financial stress would pass onto 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 ship yards 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 2012 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 the entire financial infrastructure of the world.

Concluding Remarks

Considering all the above, we feel that we are poised to take advantage of the opportunities that the Dry Bulk Tramp Freight Markets will 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