

Annual Review - 2003

2003, and what a year it was! For us at PSL we had some special milestones that were achieved during this momentous year.

FINANCIAL HIGHLIGHTS AND REVIEW OF THE YEAR:

In terms of operations, during the year under review, the Total Revenues of the Company was Baht 3,990.52 million [2002:Baht 3,402.39 million] and the Company incurred a Net Profit of Baht 1,536.56 million [2002: Net Profit Baht 502.43 million]. This included a Net Gain on Foreign Exchange of Baht 184.19 million [2002: Gain Baht 73.12 million]. The Shareholders' Equity of the Company has increased significantly to Baht 1,957.87 million [2002:Baht 676.59 million]. The Total Assets of the Company have increased to Baht 5,867.92 million [2002:Baht 5,103.84 million].

During the year, the Company incurred an Operating Net Profit before Exchange Gain, Income Tax and Extraordinary items of Baht 1,204.76 million. In terms of the earnings, the Company's vessels achieved about 35 percent increase in yields as compared to the previous year 2002. The total revenues in absolute terms were higher than that of the previous year, which is mainly on account of higher yield achieved during the year 2003. The total revenues increased during the year in spite of lower vessel operating days and lower exchange rate of U.S. Dollar to Thai Baht as compared to the previous year. The Company has continued to keep a tight control over vessel operating expenses and there is a marginal increase in vessel operating cost during the year 2003. The technical downtime has also been kept under control, at an average of less than 10 days per vessel, which, has led to minimum loss of revenues. As a result of the improved profitability and new USD 100 Million facility with a 1 year moratorium on repayment of Loans and reduction in the interest costs during the year, the Company enjoyed extremely high level of liquidity during 2003.

January saw us stripping out the convertible feature of our outstanding bonds (RCD) and thereby ensuring that there was no threat of any form of dilution to our existing shareholders. We also got the maturity of this instrument extended by another 6 years to January 2009. During the year, despite the extension in maturity, we bought back the entire outstanding bonds, at a tidy discount of 25%, and closed out the last of our formerly restructured loans.

June was when we signed the Krung Thai Bank (KTB) USD 100 million loan. This was used to refinance all our existing loans, that would have been pre-paid by the middle of 2004, and extend their maturity to 2010. This also allowed us for the first time, in more than 6 years, to look at the possibility of buying ships and expanding our business.

Best Corporate Governance Report Award: This award was given by the Stock Exchange of Thailand (SET) in July to 15 of the listed companies on the SET for outstanding reports that complied with the SET's 15 good corporate governance principles. In considering the candidates, judges examined the 56-1 form, annual reports, meeting invitation documents, and shareholders' meeting reports of companies with accounting periods ending December 31, 2003. PSL was one of the proud recipients of this award.

September saw us buying and taking physical possession of the first of 5 ships that we purchased during the final quarter of 2003 and the 1st quarter of 2004. Until the end of 2003, we have taken over two of these ships with the balance three to be taken over in January, February and March 2004.

November was when we became XD for the first time in more than 6 years with a yield, based on the average share price for 2003, of about 3%. We hope that this will be the beginning of a stable and long term trend at PSL and something that all the shareholders can look forward to.

The Baltic Dry Index (BDI) ended the year on an all time historic high of 4765 points. To bring this in perspective you must remember that the last all time high was set in April 1995 when the index peaked at 2362 points. So the dry bulk market has scaled unimaginable peaks and is presently sailing in uncharted waters.

The earnings per day per ship for our fleet followed a similar pattern as the BDI. In Q1 the figure was USD 6,474, Q2 saw it jump to USD 7,643, Q3 bumped it up to USD 7,840 and Q4 was an amazing USD 9,524! For 2003 we averaged USD 7,870 per day per ship as compared to USD 5,855 for 2002 or an increase of over 34%!

Share Prices and Market Capitalisation, adjusted for share split and dividend, followed a similar but even more dramatic pattern. On January 2nd 2003, on the very first day of trading a mere 4,000 shares were traded with a closing price, duly adjusted, of 1.97 Baht. On December 31st 2003, on the last day of trading just twelve months later, 8,943,300 shares were traded with a closing price of 35 Baht per share or almost 18 times higher! Market Capitalisation went from 1,025 million Baht on January 2nd 2003, to 18,200 million Baht on the 31st of December 2003 or an increase of 17.5 times! It is no wonder that we were the 2nd best performing stock in probably the best performing stock market in the world!!

FLEET:

The Company bought 5 ships (including one ship in 2004) but took physical delivery of only 2 of them during the year and consequently, the fleet strength at the end of

the year was 30 vessels with an aggregate capacity of 691,823 dwt and an average age of about 17 years. The balance 3 ships purchased, as detailed above, will be physically delivered to us prior the end of Q1 of 2004. The rest of the vessels in the fleet are in good condition and there may not be any need for disposals during the year 2004. The Company shall continue replenishing the fleet with further vessel acquisitions and shall be on the lookout for the right opportunities. Fujisan Maru, the Company's partially owned cement carrier, converted in 1998, remained gainfully employed on a long-term charter during the entire year.

THE INDUSTRY OUTLOOK:

Ship scrapping for 2003 continued in the same vein that we left off in 2002 but slowed down as we neared the end of 2003 with a total of 124 ships being removed from our sector, resulting in a net reduction of over 4.10% in the world fleet. The highest previous reduction was in 2000 when there was a net reduction of 4.74% in the world fleet in our sector. The reason for a slowing down in the scrapping rate has been the change in the freight market from a state of relative strength at the beginning of the year to astronomical levels and uncharted territory as the year 2003 ended. With over 25.70% of the world fleet in our sector being greater than 27 years of age, we expect the scrapping rate in the next few years to reflect those of the immediate past. This consistent net reduction in fleet size can only continue to be beneficial to freight rates.

For the year 2004, the supply of new ships is marginally stronger than in the immediate past. In the Capesize sector 40 ships or 6.50% are scheduled for delivery in 2004 with another 42 ships or 6.20% to follow in 2005. In this sector 74 ships or 11.90% will be over 22 years of age and likely to be scrapped during 2004. In the Panamax sector there are 72 ships or 6.70% to be delivered during 2004 with another 62 ships or 5.80% contracted for delivery in 2005. The saving grace in the Panamax sector is that 64 ships or 6.0% of the fleet is currently over 24 years of age and would likely be scrapped during 2004 thereby balancing the fresh supply. In the Super Handymax sector 84 ships or 6.90% are scheduled for delivery in 2004 with another 70 ships or 5.70% to follow in 2005. In this sector 78 ships or 6.40% will be over 25 years of age and likely to be scrapped during 2004.

In our last Annual Report we had commented on the geo-political situation in Iraq acting as an economic drag whilst keeping oil prices at very high and economically unsustainable levels. We had then felt that this would push the world into an economic recession and that would be bad news for all of us. Happily for us just the opposite proved true. All the world economic fundamentals for 2004 appear to be pulling in the right direction for the first time since 1986. We therefore expect that trade flows, and consequently bulk cargo movements, should increase during the coming year.

The myriad of forecasts made by our industry pundits, as indicated in our last report, have been vindicated with rates recovering strongly in the latter half of 2003.

The same pundits now forecast that 2004, 2005 and, maybe, even 2006, should be good years! We are, therefore, cautiously optimistic about the prospects for the next three years.

REGULATORY INFLUENCES:

Port State Control (PSC) has continued its iron-man role forcing 'best industry practice' levels in every sector. The few accidents resulting in oil staining pristine beaches have helped tighten the screws by a few more notches. With the coming into force of the International Ship and Port facility Security (ISPS) code by 1st July 2004 we expect that PSC will get even greater latitude in taking action against those ships that are deemed to be sub-standard and or those that trade to undesirable ports of the world.

ISSUES FACING THE INDUSTRY:

- With the Freight Markets hitting all time highs during 2003, the need for financial restructuring is a thing of the past. Very few Companies are left in any such dire predicaments. Most Companies today have a lot of cash in their pockets which will be used to chase those second-hand ships that are available, driving prices that are already very high, to levels never seen before.
- The dot.com platforms in our industry are fading away. However many IT solution providers are making available standardized packages that would allow us to make better use of modern technology to conduct our business in a more efficient manner. These solution providers are to be welcomed by the progressive elements within our industry.
- In our previous reports we had hoped that the consolidation bug would spread to the Dry Cargo Sector that was badly in need of the same. This is happening, though rather slowly, with the take over of smaller fleets by larger companies. Another move is the formation of Pools that are another aspect of the desire for consolidation whilst retaining control and ownership of the individual assets. 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.

JOINT VENTURES:

The process of winding up or the disposal of our joint-venture investments continues.

- **Geepee Bulk Handlers, Kandla (GPBH):** In view of the expiry of the concession agreement with the Government, for the Berth, the orderly closing down of this company continues.
- **Southern LPG (SLPG):** The process of closing down this entity has been finalized. Negotiations for the sale of our investment in this Company are ongoing and we should be able to close the sale in the near future.

- **International Seaports (ISPL):** This investment was supposed to form the basis of some non-cyclical earning streams in the future. However, in view of the requirement to raise funds for the redemption of the RCD's, and the delays in receiving permissions and approvals from Government and other statutory authorities, further investments in the Kakinada and Dhamra Port Projects were frozen, as a result of which, even if there is further progress in these projects through the efforts of our partners or new investors, our holdings in these projects shall be automatically diluted. Therefore, before a substantial dilution could take place, which could have had an adverse impact on the liquidity of the sale of these investments, we had commenced efforts to sell these investments, which are now at an advanced stage and are hopeful of a positive result this year. Once investments in these two projects are disposed off, our investment in the Haldia port project (about 22.4%) and the original investment in ISPL, Singapore shall be the only investments remaining alive under the ISPL umbrella. Progress on the Haldia project was according to schedule and project construction is now entirely completed. Commercial operations commenced on 15th January 2004, with a formal opening by the Union Minister of Shipping scheduled for 23rd January, 2004.

IN CONCLUSION:

We have managed to set up a strong growth-platform, through some very turbulent times, during 2003. We feel that we are poised to take advantage of this once-in-a-life-time opportunity that the Dry Bulk Tramp Freight Markets have thrown our way. With Gods Grace, we hope to be able to deliver, to our shareholders and other stakeholders, the promise of the potential that was first shown in 2003. This realisation 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.

I will leave you with a quote from an article that appeared in the Fairplay Weekly magazine issue dated 9th October 2003 'If riding the current market wave has been a hair-raising ride for some bulker owners, it's becoming clear that they ain't seen nothing yet.' This quote nicely sums up what the year 2003 was all about and what, God willing, the years 2004, 2005 and 2006 will hold in store for us.