

Annual Review - 2004

To call 2004 a momentous year would be the equivalent of the classic British ability for understatement at its best.

FINANCIAL HIGHLIGHTS AND REVIEW OF THE YEAR:

In terms of operations, during the year under review, the Total Revenues of the Company was Baht 8,728.12 million [2003: Baht 3,990.52 million] and the Company incurred a Net Profit of Baht 4,749.77 million [2003: Net Profit Baht 1,536.56 million]. This included a Net Gain on Foreign Exchange of Baht 56.14 million [2003: Gain Baht 184.19 million]. The Shareholders' Equity of the Company has increased significantly to Baht 5,292.51 million [2003: Baht 1,957.87 million]. The Total Assets of the Company have increased to Baht 13,375.78 million [2004: Baht 5,867.92 million].

During the year, the Company incurred an Operating Net Profit before Exchange Gain, Income Tax and Extraordinary items of Baht 4,693.63 million. In terms of the Earnings, the Company's vessels achieved about 68 percent increase in yields as compared to the previous year 2003. The total revenues in absolute terms were higher than that of the previous year, mainly on account of higher yields achieved and higher vessel operating days during the year 2004. The Company has continued to keep a tight control over vessel operating expenses although there is a marginal increase in vessel operating cost during the year 2004. The technical downtime has also been kept under control, at an average of less than 12 days per vessel, which, has led to minimum loss of revenues. As a result of the improved profitability and robust cash flows, the Company has enjoyed extremely high level of liquidity during 2004 and has prepaid the US Dollars 34.75 Million of secured loans.

The First Quarter saw us achieving two mile stones; the first was the signing of a USD 170 million credit facility from Krung Thai Bank (KTB) for the purchase of additional ships from the second-hand market, and the second was the 15 ship purchase from Malaysian International Shipping Corporation (MISC) for USD 98 million en-bloc. The greatest challenge facing us in 2004 was how to grow the fleet rapidly in a market environment where every ship purchased could be paid back from cash flows in less than 18 months!

The Second Quarter saw us commence The Share Buy Back Program in the month of April 2004. As of the 09th October 2004 we had bought back a total of 13,386,300 shares equal to 2.57% of paid-up capital at an average price of Baht 33.68 per share. This completed the repurchase program as the time limit allowed for such repurchases under the regulations expired on the 09th October 2004. The Company is now allowed to commence sales of the repurchased shares from 10th April 2005 until 8th October 2007. If all or some shares remain unsold within the

aforesaid period, these will be cancelled and the Equity share capital of the Company would be reduced.

The Third Quarter saw us attending the Crystal Night SET Awards 2004 where we were nominated for two awards; for the Best Performance award to three listed companies in each of the eight industry groups with the best financial status and performance in 2003 as well as their operation in compliance with information disclosure and liquidity of securities; and for Best Liquidity Improvement award to the listed company that had made the most amount of progress in prominently employing financial instruments in the capital market to enhance its security-trading liquidity in the year 2003 as compared to 2002. We won the award for Best Liquidity Improvement and our Chairman, Dr. Admiral Amnad Chandanamatta, was there to receive the trophy from H.E. Dr. Somkid Jatusripittak, the Minister of Finance. This event took place on the 26th July 2004. During this quarter we also paid out an interim dividend of Baht 1 per share, continuing the trend started in November 2003, when we paid out the first interim dividend after a break of almost 6 years.

The Fourth Quarter saw us getting the prestigious AMVER award from the United States Coast Guard. A team from the US Embassy headed by their Naval Attache Commander Kevin Graffis visited our office and presented awards to 11 of our vessels who actively participated in their 'Automated Mutual Assistance Vessel Rescue System'.

The Baltic Dry Index (BDI) ended the year at 4,639 points not too much lower than from where we had started out the year at 4,765 points. But that would not even begin to describe the incredible year that we have just had. To bring this in to perspective you must remember that the last all time high was set on the 4th February 2004 at 5,681 points. From that point onwards the index plummeted like a stone till the 22nd June 2004 when it was at a low of 2,622 points. From there it was a steady upward movement till the 6th December 2004 when the index reached its newest peak of 6,208 points! So the dry bulk market has scaled two unimaginable peaks within this year with a low point in between. We can not remember when the BDI has ever hit two extraordinary peaks in a single calendar year!

The earnings per day per ship during 2004 for our fleet however did not follow a similar pattern as the BDI. Quite unlike what happened during 2003, when our earnings per day per ship roughly followed the movements of the BDI, the year 2004 reflected our strategy to move from the spot market to longer term charters for our fleet and thereby avoid the dramatic changes in earnings per day per ship as would have been the case had earnings followed the BDI movements. In Q1 the figure was USD 12,526, Q2 saw it consolidate at USD 12,553 during the time when the BDI had virtually collapsed, Q3 bumped it up to USD 13,199 and Q4 was an amazing USD

14,282! For 2004 we averaged USD 13,248 per day per ship as compared to USD 7,870 for 2003 or an increase of over 68%!

The China Factor: No report in the Dry Bulk Tramp Freight market would be complete without some comment on the one country that has helped drive rates to their current astronomical levels. At the beginning of 2004 most predictions were for China to produce between 240 and 250 million tons of steel. The actual numbers suggest that this figure was closer to 270 million tons! The forecast for 2005 is for this number to increase to some where between 310 and 320 million tons whilst the actual production capability would be closer to 350 million tons. The gap between what can be produced and what is expected to be produced is simply due to a lack of logistical support and adequate shipping capacity! The propensity for China to surprise on the upside is not quite being given the importance that it deserves.

IPOs in Shipping: The rush by various Shipping Companies to get listed has gained real momentum during 2004 and continues to spill over into 2005. The quality of many of those engaged in this activity is such that we will see quite a few investors burning their fingers. This will not bode well for the rest who are struggling to do the right thing. We can but hope that investors will look to the track record of the managements involved in all such listed vehicles before investing their funds and time in their offerings. It is the savvy investor who spends time visiting with and or talking to management that will come out unscathed.

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. This is not something new but, unfortunately, something that we have not emphasized in any of our past Annual Reports. In fact soon after we got listed on the SET in 1993 we were nominated as one of the best companies in Thailand for Investor Relations by the prestigious magazine, Asia Money. We were in the top five companies for two years in the mid 1990's as per the surveys conducted by Asia Money. To give you an idea as to how actively we focus on this area, we have listed out hereunder, the various road shows that we have participated in since September 2003.

- September 2003, with UOB Kay Hian in Singapore.
- October 2003, with CSFB to Hong Kong and Singapore.
- November 2003, with Capital Nomura in Hong Kong.
- January 2004, with BnP Paribas in Singapore.
- January 2004, with JP Morgan in London.
- March 2004, with BnP Paribas in London, Edinburgh, Amsterdam, Paris and Milan.
- June 2004, with BnP Paribas in Frankfurt, Copenhagen and Stockholm.
- July 2004, with the SET/BnP Paribas 'Jewels in the Crown' at Singapore.
- October 2004, with Citigroup for their 'ASEAN Corporate Day' at Singapore.

- November 2004, with Goldman Sachs, for their 'Inaugural Shipping Conference' at New York.
- December 2004, with CSFB in New York, Boston, Washington DC and San Francisco.

In addition to these Road Shows we also attended the 4 quarterly SET Opportunity Days during 2004. We were also asked to make a public presentation at the CLSA TIP Forum held at Bangkok in February 2004. We were invited to take part in the JP Morgan 'Emerging Asia Conference' held in Bangkok in March 2004. We also participated in the 'Thailand Focus' Investor Conference in Bangkok in September 2004 jointly organised by the SET, ABN Amro and CSFB. We hope to continue actively with this important part of our Investor Relations Program in 2005 and beyond.

OUR FLEET:

The Company bought 22 ships in 2004 and took physical delivery of all of them during the year and consequently, the fleet strength at the end of the year was 52 vessels with an aggregate capacity of 1.31 million dwt, an average 25,213 dwt per ship, and an average age of about 18 years. The vessels in the fleet are in good condition and there may not be any need for disposals during the year 2005. The Company shall, however, be on the lookout for the right opportunities for fleet renewal.

THE INDUSTRY OUTLOOK:

Ship scrapping slowed down quite dramatically as we neared the end of the year with a total of 66 ships being scrapped and 67 new ships being delivered into the fleet, resulting in a positive growth of just 1 ship in the world fleet to 3,029 ships in our sector during 2004. The reason for a slowing down in the scrapping rate has been the change in the freight market from a state of strength at the beginning of the year to astronomical levels, and uncharted territory, as the year progressed.

For the year ahead, the supply of new ships is stronger than in the immediate past. In the Capesize sector 54 ships or 8.1% are scheduled for delivery in 2005 with another 77 ships or 11.5% to follow in 2006. In this sector 72 ships or 10.8% will be over 22 years of age and likely to be scrapped during 2005 should freight rates reach low enough levels. In the Panamax sector there are 74 ships or 6.4% to be delivered during 2005 with another 56 ships or 4.9% contracted for delivery in 2006. The saving grace in the Panamax sector is that 63 ships or 5.5% of the fleet is currently over 24 years of age and would likely be scrapped during 2005 should freight rates decline sharply enough thereby balancing out the fresh supply and restoring freight rates rather quickly. In the Super Handymax sector 106 ships or 8.2% are scheduled for delivery in 2005 with another 83 ships or 6.4% to follow

in 2006. In this sector 74 ships or 5.7% will be over 25 years of age and likely to be scrapped during 2005 if freight rates drop by any appreciable margin. In the Small Handy Size sector, 73 ships or 2.4% are scheduled for delivery in 2005 with another 51 ships or 1.7% to follow in 2006. In our sector 736 ships or 24.3% will be over 27 years of age and likely to be scrapped during 2005 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 exclusively, of the Dry Bulk Tramp Freight market. Our **Competitive Position** within the industry with 52 ships has been strengthened with the purchase of the 22 ships during 2004. We currently have about 2% of the world fleet in this sector which makes us one of the largest, if not the single largest, player in this sector of the market. With the ownership structure in this sector being extremely fragmented we are presently enjoying the big-fish-in-a-small-pond syndrome. As a result we are an established brand name within this sector 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.

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 levels. We had then felt that the world economic fundamentals for 2004 appeared to be pulling in the right direction for the first time since 1986. We had therefore expected that trade flows, and consequently bulk cargo movements, would increase during the year. We could not have been more prescient. Trade flows in 2004 kept the freight market bubbling, and smiles on owner's faces, through out the year. We suspect that should the geo-political situation in Iraq and the rest of the world improve during 2005 it would result in even greater trade flows and hotter than expected freight markets. Time will tell if the situation in Iraq will improve to such a point.

The myriad of forecasts made by our industry pundits, as indicated in our last report, have been vindicated with rates improving strongly during 2004. The same pundits now forecast that the next 2 to 3 years should be good years! We are, therefore, cautiously optimistic about the prospects for the next few years.

REGULATORY INFLUENCES:

Port State Control (PSC) has continued its iron-man role forcing 'best industry practice' levels in every sector. With the coming into force of the International Ship and Port facility Security (ISPS) code on 1st July 2004 PSC has got even greater latitude in taking action against those ships that are deemed to be sub-standard and or those that trade to undesirable ports. We just hope that over zealotness does not hamper the smooth functioning of our industry.

ISSUES FACING THE INDUSTRY:

- With the Freight Markets hitting all time highs during 2004 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. Today a 5 year old second hand ship commands a

premium over the new building replacement cost with 10 year olds being exchanged at new building prices!

- Many IT solution providers are making available standardized packages that would use 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 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, we have sold Geepee Corporation Limited, the company holding the investment in the said joint venture which has yielded a profit of Baht 33.53 Million.
- **Southern LPG (SLPG):** The process of closing down this entity has been finalized. Negotiations for the sale of our assets in this company are in advance stage and we should be able to close the sale completely 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 during first half of 2005. Once investments in these two projects are disposed off, our investment in the Haldia port project (about 22.4% of the total capital) and the original investment in ISPL, Singapore shall be the only investments remaining alive under the ISPL umbrella.

IN CONCLUSION:

We have set up a very strong growth-platform for your Company, through some very bold decisions and grabbed-opportunities, during 2004. 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. With the changed business strategy of going for longer 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 to get debt free by the end of 2005. This will allow us to not only consolidate the growth that we had achieved during 2004 but also get us ready for the next phase of expansion as and when a suitable opportunity would present itself. The prospects of future expansion once we are debt free should therefore not be ruled out. Besides, our enviable track record of rapid pre-payment of debt should allow our future expansion to be funded solely from debt that would be raised at extremely competitive levels.

In our last report we had left with you with a quote from an article that appeared in the Fairplay Weekly magazine issue dated 9th October 2003 indicating that the Bulk Markets had not yet seen their best times. That quote proved absolutely spot on with the record year that we have just had in 2004.

This time around we would like to leave you with a quote from the HSBC Shipping Services Weekly Commentary dated 28th January 2005. ‘Professor Justin Lin, Director of the China Centre for Economic Research at Peking University, forecasts that China will continue to achieve average 9% per annum growth for the next 20 to 30 years, as it has for the last 25 years. He believes that the incremental demand that China has brought to the shipping industry is not in danger of disappearing but will balloon further. More ships, anyone?’

For the 2005 year ahead, we could see even better results and growth in our numbers than we have experienced in 2004. The prospects for 2006 and beyond have never looked so good.