

"He who is not courageous enough to take risks will accomplish nothing in life" Muhammad Ali

Our Key Performance Indicators:

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for the quarter was USD 13.48 million, which compares with a net loss of USD 12.03 million in Q2 2015. The average earnings, per day per ship during the quarter, were USD 6,293 compared with the USD 5,757 in Q2 2015. The average operating expenses, per day per ship, were USD 4,529 in Q2 2016 which is lower than our target of USD 4,600 and also lower than the USD 4,625 of Q2 2015 (including depreciation/amortisation of the Drydocking/Special Survey expenses in both periods). The loss per share (eps) in Thai Baht for the quarter amounted to Baht 0.30 per share versus a loss of Baht 0.35 per share in Q2 2015. To keep our results in perspective, please take a look at the results declared by other shipping companies which we have compiled in a different section of this letter.

THE HARD FACTS	Q2, 2015	Q2, 2016
Highest Earnings per day per ship in USD	15,000	15,000
Average Earnings per day per ship in USD	5,757	6,293
Average Earnings per day per ship in USD (Handy Size)	5,575	6,752
Average Earnings per day per ship in USD (Supramax)	6,515	5,571
Operating cost per day per ship in USD	4,625	4,529
EBITDA in million USD	1.82	3.94
Net Profit/(Loss) in million USD (excluding Exchange loss and Non-recurring items)	(10.70)	(9.75)
Net Profit/(Loss) in million USD	(12.03)	(13.48)
Earnings(Loss) Per Share (on adjusted number of shares) in Thai Baht (excluding Exchange loss and Non-recurring items)	(0.23)	(0.22)
Earnings (Loss) Per Share in Thai Baht	(0.35)	(0.30)

Update on disputes with Sainty Marine Shipyard: As of date, 10 ships were delayed and not delivered within the maximum period allowed under the relevant Shipbuilding Contracts with Sainty Marine. Therefore, the Company exercised its contractual right and cancelled the 10 relevant shipbuilding contracts. We received the refunds of the instalments paid along with the interest thereon from the refund guarantor for 3 out of the 10 cancelled shipbuilding contracts. Further, there are 2 remaining shipbuilding contracts which have been purportedly cancelled by Sainty Marine, which cancellations have been disputed by us. Arbitration proceedings have been commenced for 9 shipbuilding contracts including the 2 ships delivered to us in 2014 in respect of which, we have initiated arbitration to recover our Warranty claims.

Market Segmentation: During Q2, the Baltic Handy Size Index (BHSI) averaged 333 points derived from the average Time Charter (TC) rate of USD 4,791. Compared to that, our Handies earned USD 6,752 and beat the BHSI TC rate by 40.9%. During Q2, the Baltic Supramax Index (BSI) averaged 554 points derived from the average TC rate of USD

5,795. Compared to that, our Supramaxes earned USD 5,571 and underperformed the BSI TC rate by 3.9%. Our target has been to outperform both the indexes.

The Fleet Rejuvenation Plan has progressed well with 41 ships in the water as of 1 August 2016. Another 2 brand new 64K Ultramax ships are due during 2016 and one more brand new Ultramax ship in early 2018. We have sold 7 ships up to date in 2016 and plan to sell another 5 older ships during 2016/2017.

The next SET Opportunity Day will be held at the SET building at 15.20 hours on the 11th August where we will be presenting and discussing our Q2 results. For those of you who cannot attend physically, the SET [webcasts](#) the Opportunity Day presentation live, giving you a chance to be present via the web.

LONG TERM VERSUS SHORT TERM CHARTERS: As can be seen, our current and forward four year (2016 to 2020) rolling book as at the end of Q2 is at the 14.4% level with a visible revenue stream of USD 162 million.

Year	2016	2017	2018	2019	2020
Total Available Days	15,590	16,060	16,416	16,425	16,470
Fixed T/C Days	2,562	2,555	2,240	2,190	2,196
%age Fixed T/C Days	16%	16%	14%	13%	13%
Av. T/C Rate/Day in USD	13,713	13,713	13,849	13,875	13,875
Contract value in USD	35.1	35.0	31.0	30.4	30.5

As the BDI currently is at fairly low levels we will have to wait out the current period before fixing ships on longer term charters once the BDI moves in an upward direction.

BDI Developments:

The Baltic Dry Index has bounced back from the depths of misery of 290 points in February to the 'lofty' level of 700+ points by end of July. Even at these 'lofty' levels it is very difficult for most owners to avoid negative cash flows unless their operating costs are extremely low. At these levels no owner is generating cash to pay the interest burden and certainly not their legal repayment obligations under their secured loans. Though demand has grown, as can be seen from the FH numbers for China, there has been no surge to justify the current levels of the BDI. However, 22.74m DWT of dry bulk ships have been scrapped in the FH of this year compared to last year's 20.5m DWT. New orders are hovering near zero levels. All existing orders are being delayed due to financial pressure either on the buyers or at the ship yard level. Many orders for 2016 have been converted into Tankers and/or Container ships. All of this has helped reduce the pressure from the Supply side of the equation and as a result, the negative sentiment has started to slowly dissipate from the market with a gradual rise in the BDI to the current levels. Unfortunately scrapping has slowed to a crawl towards the end of Q2 and this has allowed an overall net fleet growth of 0.84% or 6.51 MDWT in the FH of this year as against an expected negative fleet growth forecast based on Q1 scrapping numbers. If scrapping doesn't

accelerate in the SH of this year then the BDI will start to drop from the current levels and we may be faced, once again, with rates that equal the all time low reached in February.

Key Demand Developments:

PROSPECTS over the next 12 months can be better understood if one were to examine the macro environment. We have given you a selection of such information from various publicly available sources.

China

China's iron ore imports for the first half at 493.7 MMT, climbed 9% from year-ago levels according to data from the General Administration of Customs. (Reuters)

Chinese steel production in the first 6 months was 401.1 MMT, down 1.6% y-o-y. (Banhero Costa)

China plans to cut its steel production capacity this year by 45 MMT. China has vowed to tackle price-sapping supply gluts in major industrial sectors, and said that it would close 100-150 MMT of steel capacity within three to five years. (Cosco China Steel & Coal Newsletter)

China's steel exports for the first half of 2016 rose 9% year-on-year to 57.12 MMT. (Reuters)

China boosted coal imports to the highest in more than a year as domestic production slipped with increased overseas purchases according to data from the General Administration of Customs. Inbound shipments over the first six months of 2016 increased **by 8.2% to 108 MMT** over the previous year. (Bloomberg)

China mined, according to figures released by the National Bureau of Statistics, in the first six months a total of 1,627.64 MMT of **crude coal, down 9.7% on year.** (Platts)

China is the world's largest coal producer. The State Council announced earlier this year plans to slash capacity to curb the pollution choking the nation's cities and eliminate so-called "zombie" companies in the struggling coal industry and will shut down 500 MMT of capacity and consolidate another 500 MMT in the next three to five years. Coal output capacity will fall by 280 MMT this year, that's equal to about 7.5% of the 3.75 BMT that BP Plc says the country produced in 2015. China's coal consumption will be around 4.3 BMT by 2020, as the government pushes for cleaner and greener growth despite the slowing economy. (Bloomberg & Cosco China Steel & Coal Newsletter)

China is the largest importer of bauxite in the world, accounting for almost two thirds of global imports. Bauxite imports to China almost tripled between 2008 and 2013, peaking at 71 MMT in 2013. Imports then fell 50% in 2014, to 36 MMT. However bauxite imports to China then rose 56% in 2015, to approximately 56 MMT, driven by imports from Australia. In the first five months of 2016, bauxite imports to China totaled 21.9 MMT, up 18.3% compared to the same period last year. Given the low freight rates and limited supply from Malaysia, it is now expected that Guinean and Brazilian bauxite supply will continue to increase. (Banhero Costa)

The US Department of Agriculture predicts that **Chinese imports of soybeans** will increase by 4 MMT y-on-y in the 2016-7 marketing year. Longer term, they expect imports to grow from 83 MMT in 2016-17 to 109.5 MMT in 2025-26. (Banchero Costa)

Brexit has made Chinese authorities step up efforts to revive economic growth, fearing fallout in their second biggest trade partner, the EU. A scheme to invest in China's Midwest railway infrastructure was approved in end June, forming part of what is believed to be a Yuan 5 trillion initiative. This surpasses the Yuan 4 trillion scheme China introduced in 2008 three months after the financial crisis. (TradeWinds)

Persistent downward pressures will not prevent the **Chinese economy** from **meeting its growth target**, Chinese Premier Li Keqiang assured at the opening plenary of the World Economic Forum's 10th Annual Meeting of the New Champions. While the global economic recovery since the crisis eight years ago has been weak and market volatility and uncertainty have risen, China will maintain stable and sustainable economic growth by pursuing structural reforms and promoting innovation and new drivers of development, Li pledged. (World Economic Forum)

One Belt, One Road (OBOR) is a conceptual plan, a vision for greater cooperation, inclusiveness and higher growth among several countries put up by Chinese President, Xi Jinping in September 2013. This concept currently covers some 65 countries in three continents encompassing 4.4b people! The projected investment for OBOR at USD 1.4t is about 12 times larger than the Marshall Plan, which was about USD 120b in today's value, put together post World War II. The benefits that would result from OBOR would be very helpful to the Chinese economy and, indirectly, a boon to Dry Bulk shipping, via the following:

- China will utilize the ~30% idle steel mill capacity to produce steel at possibly the lowest cost in the world for the OBOR infrastructure projects.
- Coke, the other ingredient to produce steel, is in a similar oversupply/low price situation, so steel should be produced very cheaply indeed.
- Chinese Cement plants have an idle capacity of ~40% allowing them to produce cheap Cement for OBOR.
- Employment in the Steel and Cement industries in China will no longer be at risk.
- China would be able to shift their labour intensive industries away from the full employment, high labour cost, and expensive real estate of the South and the East of the country to the West where labour is plentiful, is cheap and land isn't expensive thereby prolonging the life of labour intensive industries that would be connected with first class infrastructure to their respective export/domestic markets.
- The above actions will allow the Chinese economy to smoothly transition to a services and consumption led model from an investment/infrastructure led one.
- All the above would generate more demand for dry bulk shipping space!

Turkish Coup and its (non)impact

Turkey is an important dry bulk market mainly for steel production and scrap, coal and iron ore imports. During 2015 Turkey imported 33.98 MMT of coal with a record increase of 267.7% compared with 2014. A 17.2% growth was registered for iron ore imports, from 8.54 MMT in 2014 to 10.01 MMT in the following year. The main reason, of course, is the Strait of Bosphorus,

a key route for all the cargoes to and from the Black Sea, with around 48,000 vessels transits each year. The coup had almost no effect on trades; transits through the Turkish Straits were briefly interrupted whilst the coup attempt was ongoing, but normalcy was re-established relatively quickly. (Banchemo Costa)

USA

The rout in crude prices is snowballing into one of the biggest avalanches in the history of corporate America, with 59 oil and gas companies now bankrupt after filings for creditor protection by Midstates Petroleum and Ultra Petroleum in early May 2016. U.S. oil and gas companies sold about \$350.7b in debt between 2010 and 2014, the peak years of the oil-and-gas boom, with junk bonds making up more than 50 percent of all issuance, according to Thomson Reuters data. (Maritime Executive)

America will fall \$1.44t short of what it needs to spend on infrastructure through the next decade, a gap that could strip 2.5 million jobs and \$4t of gross domestic product from the economy, a report from The American Society of Civil Engineers (ASCE) Stated. The nation needs to spend \$3.32t to keep its ports, highways, bridges, trains, water and electric facilities up to date but has funded only \$1.88t of that, ASCE said. The shortfall rises to \$5.18t through 2040 without new funding commitments. (Maritime Executive)

India

Sagarmala, the Indian port-led development program, is centered on the modernization of the country's ports and provision of infrastructure that can move goods to and from ports quickly, efficiently and cost effectively. 'Last mile' links, defined in this case at around 100km in length, which should efficiently connect ports with industry clusters and other production locations such as mines as well as consumption centers, are generally poor quality or in many cases altogether absent. The program envisages spending of somewhere between USD10 – 11b on port upgrades over the coming five years, and a further USD 3b or more on dozens of last mile port-rail links to increase the efficiency and cost effectiveness of delivering cargo to and from the ports. (IHS Maritime)

Key Supply Developments:

Supply Side developments in the world bulker fleet makes for interesting reading. We started 2016 with 771.90 MDWT and have increased to 778.41 MDWT by the end of H1 for a 0.84% net fleet growth. A further 7.2% (55.46 MDWT) is scheduled for delivery in the balance of 2016 and another 4.4% (33.63 MDWT) scheduled for delivery in 2017. If we were to apply a slippage factor of 50% (it was actually 46.03% in 2015) to these scheduled deliveries and further assume that scrapping reaches 45.73 MDWT (annualized from the 22.74 MDWT scrapped in H1 2016) we would be left with a net fleet growth of 1.46% (783.15 MDWT) in 2016 and negative fleet growth of -1.92% (768.10 MDWT) in 2017.

A symptom of the above challenges is that some well known and public names are currently struggling. The following information has been extracted from publicly available news sources.

Owners and their woes

- Klaipeda County Court declared **Lithuanian Shipping Company bankrupt** on May 30 and the company has gone into liquidation. (Splash247.com)
- Dry bulk operator **DryShips raised "substantial doubt"** on 6th June about its ability to stay in business after it defaulted on three bank facilities, hit by a prolonged downturn in commodity prices and low charter rates. (Reuters)
- **Greenship Bulk**, the Jacques de Chateaufieux-backed bulker owner which trades over-the-counter in Oslo, announced an operating loss after tax for 2015 of \$74.1m and said it **is looking to undergo a debt restructuring exercise** and has entered into discussions with its lenders. The full-year result was impacted by a \$48m impairment charge on the value of its fleet of sixteen supramax bulkers. (TradeWinds)
- **Eagle Bulk**, The embattled NASDAQ-listed Supramax specialist which has just completed its **third comprehensive restructuring** in the past four years, has reported a steep first-quarter 2016 loss of USD39.3 million versus a net loss of USD20.7 million in the first quarter of 2015. (IHS Maritime)
- Bankers to listed German operator **Marenave** have told the company they want to see the sale of its entire KG-owned fleet so they can recover their loans, in return for which they will release Marenave from all liabilities. The development comes after the Hamburg-listed outfit admitted in its first-quarter report that it **might not finish this year as a going concern**. (Lloyd's List)
- Shanghai Maritime Court has found that the crew onboard the **Korea-registered Harvest International Shipping's** Panama-flagged bulk carrier Orchid Dragon is owed about \$300k in unpaid salaries. The crew has been offered legal assistance. The owner explained that the company **is facing financial difficulties** and will try to make payment as soon as possible to get the vessel released. (Splash247.com)

Shipyards and their woes

- **Evergreen Holding Group**, the parent of **Chinese shipbuilder Sinopacific Shipbuilding**, defaulted on bonds and said it can't make full payment on a one-year note because of a cash flow shortage, according to a statement on Shanghai Clearing House's website. The company, based in the eastern province of Zhejiang, sold the 400 million Yuan (\$61.3 million) of bonds with a coupon rate of 7.95 percent in May 2015. (Bloomberg)
- Zhoushan Intermediate People's Court has declared **Zhong Chuan Heavy Industry Shipbuilding** bankrupt, along with two affiliate companies Zhong Chuan Heavy Industry Equipment and Zhoushan Xuhua Metal Materials, due to their inability to repay debts. The receiver is now looking for new investors to restructure the companies, which have total liabilities of about RMB1.7bn (\$261m). (Splash247.com)
- **Yangzhou Guoyu Shipbuilding** suspended its operations in May due to financial difficulties and started to lay off employees in order to downsize and cut costs. (Splash247.com)
- **China's Yangfan Shipbuilding Group** has sought aid from the local government to help it overcome cash flow problems. Yangfan Group's Zhoushan and Qingdao yards are the latest in a growing list of Asian yards to run short of cash amid continuing low levels of contracting and as owners seek to delay delivery or cancel contracts. (TradeWinds)
- The South Korean shipbuilder, **STX Offshore & Shipbuilding** has closed down and the shipyard has asked some of its employees to take one month's unpaid leave, and has filed to

the Seoul Central District Court for a court-led restructuring program in end May. (TradeWinds)

- **Hyundai Heavy Industries Co., Daewoo Shipbuilding & Marine Engineering Co. and Samsung Heavy Industries Co.**, the big three South Korean shipyards racked up a combined net loss of 7.7 trillion won (USD 6.55 billion) last year, marking the first time that all three of the nation's largest industry players registered losses. (Yonhap)

Results of ship owners

- **Star Bulk Carriers** reported a net loss of \$48.7m in the first quarter, compared to \$40.2m in the year earlier quarter on a net fleet size of 72 vessels. (TradeWinds)
- **Kawasaki Kisen Kaisha (K Line)** reported a \$457m loss for the financial year ended 31 Mar 2016, and expects the coming year to be unprofitable as well. (SeaTrade)
- **Mitsui OSK Lines (MOL)** has made a full-year loss of JPY 170.4bn (\$1.5bn) as the company was hit by restructuring costs of JPY 179.3bn. (TradeWinds)
- **Scorpio Bulkers** net loss widened in Q1 to \$58.2m compared to \$52.1m a year earlier, vastly outstripping revenues which fell to \$10.2m. (SeaTrade)
- **Genco Shipping and Trading** has started the new financial year as it ended the last one with a loss. The Peter Georgiopoulos-led bulker owner reported a net loss of \$54.4m, but this was an improvement on a year ago when it lost \$79.1m. (TradeWinds)
- **Safe Bulkers**, the US-listed bulker company, has reported a first quarter loss of \$17.8m, or 25 US cents per share, against analyst estimates of 17 US cents per share. (TradeWinds)
- **Thoresen Shipping** has made an eight-fold increase in losses compared to twelve months ago losing THB 264m (\$7.4m) in the period from January to March versus a loss of THB 32.9m in the first quarter of 2015. The average supramax time charter rate, a key benchmark, dropped to \$3,801 per day in the first quarter versus Thoresen's average time charter equivalent (TCE) rate of \$3,747 per day. (TradeWinds)
- New York-listed **Diana** slipped \$32.8m into the red in the opening three months of 2016, beyond the \$12.2m lost in the same period of 2015. (TradeWinds)
- **Golden Ocean Group**, the listed dry bulk shipping company in John Fredriksen's business empire, reports a deep loss for the first quarter of 2016 (1Q16) of USD68.2 million. (IHS Maritime)
- **Jinhui Shipping** reported a \$18m loss for the first quarter against a profit twelve months ago of \$4m as the average daily time charter equivalent (TCE) rate earned by the group's Supramax fleet dropped 56.5% to \$2,934. (TradeWinds)

Sincerely,

Khalid Hashim