

“The future depends on what you do today” Mahatma Gandhi

Our Key Performance Indicators:

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for Q3 was USD 4.90 million from an average of 45 ships in the quarter. The earnings per day per ship during Q3 came in at USD 7,282. In this quarter, average daily operating costs per ship were USD 4,628. This figure is expected to average around USD 4,600 per day per ship for the year as a whole, and in line with our annual target. The loss in Thai Baht for Q3 was Baht 0.11 per share.

THE HARD FACTS	Q3, 2015	Q3, 2014
Vessel Operating Days	4,140	3,967
Highest Earnings per day per ship in USD	15,000	15,000
Average Earnings per day per ship in USD	7,282	6,575
Operating cost per day per ship in USD	4,628	4,547
EBITDA in million USD (excluding Gain on Novation and Loss on Sale of Vessel)	7.71	5.70
Net Profit/(Loss) before Extraordinary items (including exchange Gain (loss)) in million USD	(4.88)	(5.80)
Net Profit/(Loss) in million USD	(4.90)	(4.56)
Earnings/(Loss) Per Share in Thai Baht	(0.11)	(0.14)

The Fleet Rejuvenation Plan has progressed well with 45 ships in the water. Two more Ultras will join our fleet on the 27/28th of October 2015. Another 21 brand new ships are due during the next 12 months (20 X 64K Ultras and 1 X 38K Handy). We also plan to dispose of the older ships in our fleet over this same time frame.

Market Segmentation: During Q3, the Baltic Handy Size Index (BHSI) averaged 431 points derived from the average Time Charter (TC) rate of USD 6,311. Compared to that, our Handies earned USD 7,009 and beat the BHSI TC rate by 11.06%. During Q3, the Baltic Supramax Index (BSI) averaged 840 points derived from the average Time Charter (TC) rate of USD 8,782. Compared to that, our Supramaxes earned USD 7,601 and underperformed the BSI TC rate by 13.45%. Our target has been to outperform both the indexes.

Long Term versus short term Charters: The long term charters already booked as of 30th September are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 12% level with a visible revenue stream of USD 167.36 million.

Year	2015	2016	2017	2018	2019
Total Available Days	16,639	19,849	22,265	22,265	22,265
Fixed T/C Days	2,641	2,562	2,555	2,240	2,190
%age Fixed T/C Days	16%	13%	11%	10%	10%
Av. T/C Rate/Day in USD	13,548	13,713	13,713	13,849	13,875
Contract value in million USD	\$35.78	\$35.13	\$35.04	\$31.02	\$30.39

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

BDI Developments:

The Baltic Capesize Index has registered significant gains over July, and with Brazilian iron ore export figures just released, strong cargo movement in July (32 MMT) has undoubtedly contributed towards this upward movement. In the first 7 months Brazil has exported 199.5 MMT of iron ore, a 14 MMT (8%) increase y-o-y. Australian figures have been equally strong with 67 MMT of iron ore shipped in June being a monthly record. Future market direction will hinge around continued high shipment volumes, and whether Owners will be prepared to commit vessels open in the Far East towards the Atlantic, thus reducing available tonnage in the Pacific. The lowest bunker prices in Singapore during this cycle may be a factor! (Howe Robinson Research)

In our last quarterly news letter we had stated that there had been no surge in demand to justify the strengthening of the BDI during July and August 2015. This was the result of the supply side pressures easing due to the record scrapping rates in the FH of 2015; new orders were hovering near zero levels; all existing orders were being delayed due to financial pressure either on the buyers or at the ship yard level; many orders for 2016 were converted into Tankers and/or Container ships. We had also stated that “so long as these factors hold, we should see the current market rally being sustained.” Unfortunately the scrapping rates in Q3 2015 have come off significantly as compared to the FH and as a consequence, the BDI has come off during the month of October. We suspect that the yearend rally, if any, will be tame compared to previous years unless scrapping increases dramatically in Q4. We also suspect that the prospects for the FH of 2016 may not look too good with new supply still coming on stream but scrapping taking a back seat in SH 2015. We will need another big record for scrapped ships during all of 2016 if we are to see balance return with reasonably healthy rates towards the end of next year.

Key Supply Side Developments:

The Dry Bulk sector is chronically over-supplied and will remain so over next few years. However let's not forget that global seaborne trade is still growing steadily from a historical perspective. But the market needs time to realign supply with demand. In the meantime we need to manage our expectations and keep our faith in the industry. Shipping is prone to surprises and things can change pretty quickly. (Hartland Shipping Services)

Supply Side developments in the world bulker fleet makes for interesting reading. We started 2015 with 770.34 MDWT and have increased to 781.74 MDWT by the end of Q3 for a 1.48% net fleet growth. A further 5.76% (44.40 MDWT) is scheduled for delivery in the balance of 2015 and another 8.73% (67.23 MDWT) scheduled for delivery in 2016. If we were to apply a slippage factor of 40% to these scheduled deliveries and further assume that scrapping reaches 36 MDWT per annum we would be left with a net fleet growth of 3.22% (795.12 MDWT) in 2015 and another 1.89% (810.12 MDWT) in 2016. Net fleet growth is increasing, but marginally, compared to the recent past.

The situation in China is partially obscuring a **real change that has taken place in the capesize market** (which has been driven by the capesize fleet shrinking while iron ore production from the major miners is increasing). Many had expected Q4 strength in the capesize market, but the strength has begun in July. This is real change, and one that is become somewhat obscured due to panic over Chinese equity prices. Going forward, we remain bullish for capsize rates for Q3 2015 and Q4 2015. Iron ore exports from major miners will rise during the upcoming months. If China is still buying the iron ore (which is very likely), capesize availability is likely to see upcoming periods in H2 where vessel availability is much tighter and this is what drives freight rates. (Commodore Research & Consultancy)

Key Demand Developments:

PROSPECTS: The outlook for the global economy is unclear, the prospect for commodities is murky and the tone of geopolitical events is decidedly edgy. That makes the shipping forecast altogether a more complicated call. (Hartland Shipping Services)

Is 'Peak Coal' a reality in China? China is the world's largest consumer of coal, accounting for nearly half of global demand. The leading source of domestic demand is naturally power generation, which accounts for about two-thirds of coal consumption in the country. With air pollution and environmental degradation becoming increasingly acute social emergencies, significant effort and investment is being made by the government to try to reduce the country's reliance on fossil fuels. Domestic coal mining has itself been at the center of a storm. This is a very fragmented industry, with an appalling environmental and safety record, and recently also in terrible financial shape as most mines are losing money. There seems to be very little incentive to support the industry, except in an attempt to save jobs in areas of the country where few alternatives exist. China's domestic coal output has been essentially flat in 2013, and even declined marginally in 2014 and in the first half of this year. Therefore, there could actually still be hope for imports to rebound. Never say, never. (Banchemo Costa Research)

Will China suffer a hard landing? And, if so, will the rest of the Emerging Markets (EMs) face another Asian crisis? Two economists, Nick Kounis, Head Macro and Financial Markets Research at ABN Amro and Edward Lee Wee Kok, Head ASEAN Economic Research at Standard Chartered Bank, who spoke at the Marine Money event in Singapore on 22nd September 2015, had the following to say:

- America is doing well economically. The EU is looking better and heading for recovery. For both USA/Japan, low oil prices are good. All Central Banks are still very growth supportive, easier policies due to low inflation environment. As a result, China will NOT suffer a hard landing.
- EMs are at risk. Growth rates are slowing. Exports from the OECD countries to Ems is falling. The good news is that EMs are STILL growing! EMs growth rates are going to be weaker than what we have been used to.
- EMs have been beneficiaries of yield seekers BUT with the Fed likely to raise interest rates before the end of this year will result in capital outflows. Currencies and commodity prices will continue to weaken. However EMs reserves are much higher today compared to 1998, actually strong enough to withstand capital outflows. Besides,

the Fed hikes are going to be the slowest in history. As a result, real money supply growth will fall in EMs.

- However, China has issues with: Companies being over leveraged; Over capacity; Economy changing over from an investment led to a consumption led one resulting in lower growth rates; GDP numbers are reasonably accurate (7% growth rates in 2015, may be 6.5% in 2016).
- China has some support from: Retail sales that are doing well; Property prices are stabilizing and starting to rise gradually; Policy makers still have plenty of fiscal and monetary instruments in their tool box; Commodity prices will stay low for a longer time; Labour markets are healthy therefore no need for a 2008/9 type of stimulus plan.

The world is worried about **China's slowing rate of economic growth**. From averaging almost 10% per year in the thirty years from 1978 to 2008 the pace of growth is in the process of slowing to probably half that, albeit on a substantially larger base. China's gradual transition from investment-led to consumer-based growth is necessitated by the fact that it no longer gets a reasonable return from every dollar invested at home. It has chronic industrial and manufacturing overcapacity that has been built up to support jobs, jobs that require ever higher wages. Now that excess production, in the context of weak domestic and overseas demand, is causing falling prices and negative profit margins. The solution is a grand plan to rebuild the old Silk Road by taking advantage of absurdly low borrowing costs to invest in other people's infrastructure. The project was first mentioned in 2013 but gained momentum in March as Chinese growth was noticeably decelerating. China's surplus capital, labour and productive capacity can be mobilised to get a better investment return across a vast footprint that includes southeast Asia, the Subcontinent, the Middle East, central Asia and eastern Europe and well over 3 billion people. (Hartland Shipping Services)

Chinese Premier Li Keqiang speaking at the **World Economic Forum in Dalian** said China is on track to meet all its economic targets for this year despite fears of a deepening slowdown in the world's second largest economy. China would take more steps to boost domestic demand and implement more policies to lift imports, he said. (BBC)

2015 is turning out to be **another challenging year for the Chinese steel industry**. However, we believe this to be cyclical rather than structural, and a recovery is expected next year, in terms of both steel demand and ore imports. We are still far from 'peak steel'. China's steel use per capita, at 515 kg, is still modest for a country at this stage of development. The USA, Japan and Germany peaked at well over 700 kg in the 1970s and 1980s. (Banchemo Costa Research)

China is flooding the world with cheap steel at an unprecedented rate and keeping some shipping lanes busy that would otherwise be quiet. For the first seven months of the year, exports were up 27% to 62.13 MMT and could reach 111 MMT by the end of the year, according to forecasts from commodities researchers at Macquarie. (TradeWinds)

Grain imports into China continue to forge ahead and at the 8 month point are up 10.8 MMT (19%) to 66.3 MMT y-o-y. Soyabean imports stand at 52.4 MMT up nearly 5 MMT, whilst barley imports have nearly trebled to 7.4 MMT; corn imports also more than doubled to

4.4 MMT and wheat imports are slightly lower at 2 MMT. This significant increase in grain imports contrasts to that of coal where imports into China have declined by 60 MMT (-32%) y-o-y whilst iron ore imports have also registered a modest decrease of 1.4 MMT (-0.2%) y-o-y. (Howe Robinson Research)

China is now going through austerity, and you cannot expect that to be positive for short-term growth. Nevertheless, many indicators remain positive. In July, imports of crude oil were up 29.3 percent compared to the same month last year. Copper imports were up 7.2 percent. In July, China also imported 53.3 percent more palm oil, 72 percent more sugar, 27 percent more soybeans, 158 percent more wheat than in the same month last year. So how does all these relate to the stock market crash? Well, they don't really! The stock market in China remained weak and unloved for years, until it began to attract attention towards the end of last year. It happened soon after the housing market began to deflate, which is no coincidence. It was not long before the stock market became the new national obsession. Everyone and his dog were buying stocks. Like in a repeat of the dot.com bubble of two decades ago, taxi drivers who could barely spell their own names were investing with borrowed money. How it would end was always written on the wall. At the end of August, the indices are back to the levels of six months ago. They still have a good 20 percent to go if they are to return to the average of the past 3 years. Many people who burned their fingers on stocks will return to tried-and-tested investments – housing. If this happens, steel companies and Capesize owners will be happy. (Banchemo Costa Research)

China's GDP growth numbers have been slowing: 7% in Q1, 7% in Q2 and 6.9% in Q3. However, despite the macroeconomic numbers, **Chinese Iron Ore imports** reached 699.43 MMT by end September for an annualized total import of 932.57 MMT or almost identical to the 933.11 MMT in 2014. **Chinese Steel production** reached 606.73 MMT by end September for an annualized total of 808.97 MMT or a marginal decrease of 0.53% compared to the 813.30 MMT in 2014. **Chinese Steel exports** reached 73 MMT by end September for an annualized total of 97.33 MMT or an increase of 3.77% compared to the 93.79 MMT in 2014. **Coal imports into China** reached 156.47 MMT by end September for an annualized total of 208.63 MMT or a decrease of 28.46% over the 291.63 MMT imported in 2014. In a country that currently produces and consumes just under 4.0 BMT of Coal per annum even a small change in their Coal requirements via imports could have a dramatic impact on the Dry Bulk freight markets.

A symptom of the above challenges is that companies are currently struggling. Just to name a few that have been in the shipping press recently:

Bankruptcies:

- Florida-headquartered **Bunkers International Corp** has filed for Chapter 11 bankruptcy protection, for itself and affiliated companies, which it blamed on primary lender ceasing to support the company. (SeaTrade)
- **Global Maritime Investments** (GMI) has fallen victim to the battered dry cargo market and sought Chapter 11 protection in the US. GMI's shipowning, chartering and FFA operations will be wound down following the filings for five separate entities in the Southern District of New York. (TradeWinds)

- **Daiichi Chuo** Kisen Kaisha is expected to apply for bankruptcy protection as early as 29th September, hit hard by slumping freight rates amid weakening shipping demand. It is Japan's fifth-largest maritime shipping company by sales, with roughly 400 employees and a fleet of about 170 vessels. It specializes in bulk shipping of such items as coal and iron ore. The company has racked up total debts of roughly 120 billion yen (\$988 million), a figure that could swell to more than 200 billion yen when off-balance-sheet liabilities are taken into account. It may not have the funds needed to go through the restructuring process. (Nikkei Newspaper)
- Chinese domestic container carrier **Nan Tsing Container Lines** has reportedly ceased operations of its entire shipping fleet on 6th September as it struggled with mounting debts. (SeaTrade)
- Nantong's Tongzhou District People's Court has put an end to the restructuring appeal by debt-ridden **Nantong Mingde Heavy Industry**, and declared the shipbuilder bankrupt. (SeaTrade)
- Singapore listed Chinese shipbuilder **JES International Holdings** has closed for business as it appeals a Taizhou court's rejection of a proposed restructuring plan. (TradeWinds)
- Several small and medium-sized shipyards in Shandong have entered into bankruptcy proceedings since the beginning of 2014, including **Weihai Samjin Shipbuilding Industry** and **Rushan City Shipbuilding Co.** Meanwhile, **Zhejiang Zhenghe Shipbuilding**, a privately owned shipyard based in Zhoushan city, reportedly suspended production (Lloyd's List)

Owners and their woes:

- **Dryships** has posted a staggering net loss of \$1.4bn for the second quarter of 2015. (Lloyd's List)
- **Pan Ocean** crashes to a big loss in the second quarter of \$157.05m, against a profit of \$323.93m in the same three months last year. (TradeWinds)
- **Eagle Bulk Shipping** the US-listed supramax specialist has reported a loss of \$27.5m for the second quarter of 2015. (TradeWinds)
- HSH Nordbank AG Singapore Branch submitted an application on September 10 to the court requesting an order for **Mercator Lines** to be placed under the care of a judicial manager in light of the debt owed who have applied for a stay of proceedings at the Singapore High Court. (Lloyd's List)
- **Star Bulk Carriers** the Petros Pappas-led, Oaktree-backed owner reported a \$65m net loss for the three months ended June 30, from a 70-vessel operation, compared with a \$3m loss in the same quarter last year when the company had 17 ships in the water. Without the non-cash items, the adjusted net loss was \$22.2m versus an adjusted net profit of \$2.8m for the same period last year. (Lloyd's List)
- **Diana Shipping Inc.**, a global shipping company specializing in the ownership of dry bulk vessels, reported a net loss of \$15.5 million for the second quarter of 2015, compared to net loss of \$7.2 million reported in the second quarter of 2014. (Diana Shipping)

- **Jinhui Shipping and Transportation**, the Oslo and Hong Kong listed owner, has reported a second quarter loss of \$13m as revenues for the period were almost cut in half. (TradeWinds)

Shipyards and their woes:

- **Shandong Huahai Shipyard** has been forced to restructure due to a liquidity crunch, having seen several shipbuilding companies in the same province enter the bankruptcy process. (Lloyd's List)
- Shipbuilding yards around the world are facing shrinking order books, construction delays, and prices at loss making levels. In South Korea the situation is especially grim. The Korean yards have huge exposure in the offshore sector and the results are reflected in their bottom lines. **Hyundai Heavy Industries** (HHI) reported a net loss of \$1.52 b in the 2nd quarter compared with **Samsung Heavy Industries** operating loss of \$1.3 b and **Daewoo Shipbuilding & Marine Engineering** Co Ltd (DSME) at about \$2.62 b. (Compass Marine)

Sincerely,

Khalid Hashim