**Enclosure 4**

[Translation]

# Opinion of the Independent Financial Adviser

# Regarding the Asset Acquisition of

# Precious Shipping Public Company Limited

Prepared by

Grant Thornton Services Ltd.

# Contents

# List of tables

# List of figures

**Figures** **Page**

Grant Thornton
An instinct for growth™

[Translation]

This document has been translated solely for convenience purpose. In the event of any inconsistency, the Thai version should be relied upon as official and definitive.

4 April 2014

Subject: Opinion of the Independent Financial Adviser regarding the asset acquisition of Precious Shipping Public Company Limited

To: The Audit & Corporate Governance Committee and the shareholders of Precious Shipping Public Company Limited

According to the resolutions of the Board of Directors meeting (the "Meeting") of Precious Shipping Public Company Limited ("PSL" or the "Company") No. 2/2014 dated 26 February 2014, the resolutions can be summarised as follows:

The Meeting resolved to approve the orders of 12 new ships (the "New Build Vessels") which would be proposed to the shareholders for approval. The Company has completed the signing of the 10 shipbuilding contracts with Sainty Marine Corporation Ltd. ("Sainty") on 26 February 2014. In addition, the Company entered into the two shipbuilding contracts with Taizhou Sanfu Ship Engineering Co., ltd. ("Sanfu") and Jiangsu Ruihai International Trade Co., Ltd. ("Ruihai"), jointly and collectively called the "Sellers", on 17 March 2014. According to the regulations of the Stock Exchange of Thailand (the "SET") namely the "Notification of the Board of Governors of the SET, Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Connected Transaction, 2003", those shipbuilders, Sainty and Sanfu & Ruihai, are neither connected nor related to the Company and/or its subsidiaries.

Under those contracts, the shipbuilders are required to construct 12 new Ultramax vessels altogether classified as bulk carriers at aggregate value of USD 333.80 million or approximately USD 27.82 million per vessel. These contracts are in addition to the lots of shipbuilding contracts that were signed during the past six months. According to the SET regulations namely the "Notification of the Board of Governors of the SET Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition and Disposition of Assets, 2004", this transaction is categorised as Class 1 Transaction whereby Value of consideration paid for the assets acquired, compared with the value of consolidated total assets of the Company and its subsidiaries is equal to 50% or more but less than 100%.

The value of the current transaction, the orders of 12 new ships (the "Transaction"), is as follows:

Value of consideration paid for the assets acquired is USD 333.80 million or equivalent to THB 10,854.17 million, at the exchange rate of THB 32.517 per USD. (BOT, Weighted average Interbank Exchange Rate, as of 25 February 2014)

$$\frac{\text{Value of consideration paid}}{\text{Value of the Company's total assets*}} = \frac{\text{THB 10,854.17 million}}{\text{THB 25,509.76 million}} = 42.55\%$$

Note: *According to the consolidated financial statements for the year ended 31 December 2013, the value of the Company's total assets was THB 25,509.76 million.

The Company and its subsidiary, Associated Bulk Carriers Pte. Ltd., entered into several shipbuilding contracts during the past six months (since 30 August 2013). Total aggregated value of the assets acquired including the current transaction would be approximately 91.59% of the consolidated total assets with details as follows:

| No. | Date of Transaction | Date of Disclosure | 6-month period ended (180 days) | No. of New Build Vessels | Value of New Build Vessels (THB mn.) | Total Assets (THB mn.) | % of Assets |
|---|---|---|---|---|---|---|---|
| 1 | 30 Aug 13 | 23 Sep. 13 | 28 Feb. 14 | 1 | 759.1 | 25,042.6 | 3.03% |
| 2 | 25 Nov 13 | 26 Nov.13 | 24 May 14 | 2 | 1,750.1 | 24,663.2 | 7.10% |
| 3 | 26 Nov. 13 | 26 Nov.13 | 25 May 14 | 2 | 1,425.7 | 24,663.2 | 5.78% |
| | | | | | | Circular to the shareholders (1) | 15.95% |
| 4 | 20 Dec. 13 | 20 Dec.13 | 19 Jun. 14 | 8 | 6,404.3 | 24,663.2 | 25.97% |
| | | | | | | Circular to the shareholders (2) | 41.92% |
| 5 | 24 Feb. 14 | 24 Feb. 14 | 23 Aug. 14 | 2 | 1,816.1 | 25,509.8 | 7.12% |
| | | | | | | Circular to the shareholders (3) | 49.04% |
| 6 | 26 Feb. 14 | 26 Feb. 14 | 25 Aug. 14 | 12 | 10,854.2 | 25,509.8 | 42.55% |
| | | | | | | Transactions to be proposed for the shareholders' approval (4) | 91.59% |

Therefore, this transaction would be classified as category 1 transaction pursuant to the SET Notification as mentioned above. The Independent Financial Adviser has been advised by the Company that according to the SET regulations, the aggregate value of the acquisition of 12 new build vessels and the other acquisitions during the past six months exceeds 50% of the consolidated total assets. The Company is required to prepare the disclosure and to convene the shareholders meeting to obtain the shareholders' approval before entering into the Transaction. The shareholders' resolution required to enter into the Transaction must be at least three-fourths of the total votes of shareholders attending the meeting with voting rights excluding shareholders who have a beneficial interest.

The Company has appointed Grant Thornton Services Ltd. ("GTSL") as the Independent Financial Adviser ("IFA") to provide an opinion to the Audit & Corporate Governance Committee, the Independent Directors, and the shareholders on the reasonability and benefits of the Transaction and appropriateness of the pricing and conditions of the Transaction. GTSL is a financial adviser on the approved list of the Securities and Exchange Commission (the "SEC") and has no relationship with the Company, the Company's related parties, and all parties involved in the Transaction.

The opinion of the IFA is based on information provided by the Company including information and documents relating to the acquired assets, interviews with the management, the Company's audit report and consolidated financial statements, publicly available information, etc. However, we have not independently verified any of the information provided by the Company and/or the management nor do warrant its correctness or accuracy. This report has been prepared solely for information purpose in connection with the Transaction. The IFA provides an independent opinion with prudence under the professional standards. Such opinion is based on the assumption that all information and documents received from various sources are complete and accurate for the prevailing period. Any future deviation or change in any circumstance may have a material impact on the Company and the shareholders' decision on the Transaction.

**Summary of Independent Financial Adviser's opinion**

Precious Shipping PCL ("PSL" or the "Company) has entered into the 10 shipbuilding contracts with Sainty Marine Corporation Ltd. and two shipbuilding contracts with Taizhou Sanfu Ship Engineering Co., Ltd. and Jiangsu Ruihai International Trade Co., Ltd jointly and collectively called the "Sellers". Under those contracts, the shipbuilders are required to construct 12 new Ultramax bulk carriers at aggregate value of USD 333.80 million or approximately USD 27.82 million per vessel. The sellers are not related to the Company and/or its subsidiaries according to the Notification of the Stock Exchange of Thailand regarding rules and procedures relating to the Disclosures of Connected Transaction of Listed Companies. This order of 12 New Build Vessels (the "Transaction") through the 12 shipbuilding contracts and the other shipbuilding contracts entered by the Company and its subsidiary during the past six months, have an aggregated value of approximately 91.59% of the consolidated total assets of the Company. According to the "Notification of the Board of Governors of the SET Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition and Disposition of Assets, 2004", the Transaction is categorised as a Class 1 Transaction whereby the value of assets acquired, compared with the value of consolidated total assets of the Company and its subsidiaries is equal to 50% or more but less than 100%. The Company is required to prepare the disclosure and convene the shareholders meeting to obtain the shareholders' approval on entering into the Transaction. Grant Thornton Services Ltd. are appointed by the Company as the Independent Financial Adviser ("IFA") to provide an opinion on the reasonability and benefits of the Transaction and appropriateness of the price and conditions of the Transaction.

Regarding the reasonability and benefits of the Transaction, the IFA is of the opinion that the Transaction is reasonable and beneficial for the Company from both strategic and financial aspects. Building new vessels supports the Company's strategy to strengthen its fleet. The 12 New Build Vessels in Ultramax class have a larger capacity than the Company's existing vessels without much compromising on draft restrictions. They are also equipped with eco-friendly and efficient engines which save fuel expenses and meet the increasingly stringent environmental regulations. As opposed to aging vessels, the New Build Vessels not only allow the Company to charge higher freight rate for their superior capacity, but also reduce operating expenses, especially on repair and maintenance. A larger and more modern fleet, therefore, will potentially lead to stronger growth and profitability. According to the financial projection FY 2014 – 2018 prepared by the IFA, growth of revenue and net profit would be at an average of 19.72% and 41.26% respectively, net profit would be in the range of 20.09%-36.80% during the projection period. Furthermore, as the New Build Vessels will be funded mainly by debt, the Company can enjoy lower total cost of financing reflected by lower weighted average cost of capital. WACC would be lower from 11.37% to 9.93%-10.77% during the projection period. This will ultimately enhance the Company's and shareholders' value. Although, by entering the Transaction, the Company might be exposed to some risks, including financial, counter party, operational and market risks. The Company is considered to have the capability to mitigate and overcome these risks, given its seasoned experience in the shipping industry.

To evaluate the appropriateness of the Transaction price, the IFA applied two approaches, namely appraisal value approach and net present value approach. The appraisal values of the New Build Vessels evaluated by two industry specialists, Hartland Shipping Services Ltd. and Fearnleys Asia (Singapore) Pte. Ltd., are USD 348.00 million or USD 29.00 million per vessel which is higher than the aggregate price of USD 333.80 million or approximately USD 27.82 million per vessel. The net present value of the Transaction is in the range of USD 31.76 – 106.97 million, or relatively higher than the net present value of purchasing similar second-hand vessels, which is in the range of USD (26.97) – 29.42 million. Based on these results, the Transaction price is considered fair and appropriate.

| Valuation approach | Appraiser/Valuer | Appraisal results |
|---|---|---|
| (1) Contract price | | Total value of assets: USD 333.80 million |
| (2) Appraisal value | Hartland<br>Fearnleys | Total value of assets: USD 348.00 million<br>Total value of assets: USD 348.00 million<br>Difference from aggregate contract price: USD 14.2 million (4.25%) |
| (3) Net present value | IFA (GTSL) | <u>Net present value of New Build Vessels, after deduction of contract price in (1)</u>: USD 31.76 – 106.97 million<br><u>Net present value of secondhand vessels, after deduction of second-hand vessels value</u>: USD (26.97) – 29.42 million |

**Based on all the above reasons, the IFA views that the shareholders will benefit from the Transaction and recommends that they vote in favor of the asset acquisition.**

The shareholders should consider the reasoning and the opinion of the IFA, which is based on the assumption that the information and documents received as well as the interviews of the management and related parties are true, complete and accurate. The IFA views that the assumptions used in the preparation of the financial projection are reasonable and are based on the economic condition and data available during the study period only and that any material changes in such factors may affect the IFA's opinion. Nevertheless, the decision to approve or reject the proposed transaction rests primarily with the shareholders.

## 1. Characteristics and details of the Transaction

### 1.1. Date of the Transaction

Pursuant to the resolution passed by the Board of Directors No. 2/2014 on 26 February 2014, the Company as the buyer has completed the signing of the 10 shipbuilding contracts with Sainty Marine Corporation Ltd. ("Sainty") as the seller on 26 February 2014 for the construction of 10 bulk carriers (the "Sainty Vessels").

Further, additional 2 shipbuilding contracts were signed by the Company as the buyer with Taizhou Sanfu Ship Engineering Co., Ltd. ("Sanfu") and Jiangsu Ruihai International Trade Co., Ltd. ("Ruihai") jointly and collectively called the sellers on 17 March 2014 for construction of two bulk carriers (the "Sanfu Vessels").

### 1.2. Parties involved and relationship with the Company

The Company has entered into 10 shipbuilding contracts with Sainty on 26 February 2014, and also entered into 2 shipbuilding contracts with Sanfu and Ruihai (together as the "Seller") on 17 March 2014.

The Sellers are not related to the Company and/or its subsidiaries or the management of the Company according to the Notification of the Stock Exchange of Thailand regarding rules and procedures relating to the Disclosures of Connected Transaction of Listed Companies, 2003.

In selecting the shipbuilder, the Company will consider the shipbuilder's past performance, shipbuilding experiences, and quality of shipbuilding and delivery time. Although the Company has carefully selected the Seller, it realises that risks may be occurred if the Seller fails to build or deliver vessels. The shipbuilding contract between PSL and the Seller will clearly specify terms and conditions e.g. terms of payment, delivery, penalty, etc.

1.2.1. Sainty Marine Corporation Ltd.

Sainty Marine Corporation Ltd., located in Nanjing China, is a public shipbuilding and international ship trade company, which is a member of a large group of state assets management – Jiangsu Guoxin Investment Group Limited. Sainty primarily engages in the manufacture, distribution, and trading of motor ships and non-motor ships. It owns subsidiaries of a ship design company, shipyards and trading companies, and its business covers shipbuilding, financing for shipbuilding, and organisation of heavy cargo ocean transport. The company is listed on the stock board of China Shenzhen Stock Exchange with stock code: 002608.

Engaged in shipbuilding and international ship trade since 1980's, Sainty has delivered a number of container vessels, multi-purpose vessels, bulk carriers, chemical/oil tankers, offshore engineering platforms and ship hulls and barges to European, American, South-east Asian and Middle Eastern clients, and successfully organised transportation of hundreds of ship hulls to Europe.

Sainty established its first shipyard, Sainty Shipbuilding (Jiangdu) Corp., Ltd. in 2003. One year later, the second shipyard, Sainty Shipbuilding (Yangzhou) Corp., Ltd. was founded with full investment from Sainty. In 2004, the first vessel built was successfully delivered. In 2008, Sainty Technical Corp., Ltd. was founded. This technical house specialises in ship design and technical services for Sainty and other shipyards.

Sainty is also involved in international trading of tools, machines, clothes and materials. Sainty exports its ships to Germany, Holland, Hong Kong, Singapore and UAE. Sainty has delivered its 53 new build vessels to those countries since 2006. Presently, Sainty has 32 new shipbuilding contracts which will be delivered to its customers during 2014 – 2018.

Table 1-1: Sainty's financial highlights

| (CNY million) | 2011 | 2012 | 9M2013 |
|---|---:|---:|---:|
| Total assets | 4,763.9 | 6,486.0 | 7,690.0 |
| Total liabilities | 2,783.2 | 4,444.3 | 5,567.6 |
| Total equity | 1,980.8 | 2,041.7 | 2,122.4 |
| Total revenue | 2,601.0 | 2,622.3 | 2,355.1 |
| Operating income | 245.3 | 124.2 | 143.1 |
| Net profit | 184.6 | 80.7 | 102.1 |
| Operating profit margin (%) | 9.4% | 4.7% | 6.1% |
| Net profit margin (%) | 7.1% | 3.1% | 4.3% |

| (CNY million) | 2011 | 2012 | 9M2013 |
|---|---|---|---|
| Debt to equity ratio (times) | 1.41 | 2.18 | 2.62 |

Source: BusinessWeek

Table 1-2: Sainty's major shareholders

| No. | Shareholder | No. of shares | Percentage |
|---|---|---|---|
| 1 | Jiangsu Sainty International Group[a] | 56,545,715 | 25.6% |
| 2 | Jiangsu Sainty International Machinery Ex-Import Ltd[a] | 56,100,000 | 25.4% |
| 3 | Wang Jun Min | 15,000,000 | 6.8% |
| 4 | Li Jiu | 13,500,000 | 6.1% |
| 5 | National Social Security Fund | 2,854,285 | 1.3% |
| 6 | Weng Jun | 2,812,500 | 1.3% |
| 7 | Others | 73,687,500 | 33.4% |
| | **Total** | **220,500,000** | **100.0%** |

Note: a. Both Jiangsu Sainty International Group and Jiangsu Sainty International Machinery Ex-Import Ltd are controlled by Jiangsu Guoxin Investment Group Limited.

Table 1-3: Sainty's key management

| | Name | Position |
|---|---|---|
| 1 | Wang Jun Min | Director |
| 2 | Li Jiu | General Manager |
| 3 | Wen Jun | Vice General Manager |
| 4 | Jiang Zhi Qiang | Vice General Manager |
| 5 | Cao Chun Hua | Vice General Manager/CFO |

### 1.3. Type and size of the Transaction

The Company has entered into 10 shipbuilding contracts with Sainty for the construction of 10 bulk carriers at a price of USD 27.90 million per vessel for eight vessels, and USD 27.40 million per vessel for two vessels. The Company also entered into 2 shipbuilding contracts with Sanfu and Ruihai, jointly and collectively called the seller, for the construction of 2 bulk carriers at a price of USD 27.90 million per vessel. The aggregate value of the 12 vessels is USD 333.80 million. According to the Notification of the SET regarding Acquisition and Disposition of the Assets, the transaction is to be computed as follows:

Table 1-4: Computation of the Transaction's size

| Criteria | Calculation | Transaction size (%) |
|---|---|---|
| Assets acquired | Not applicable since the Transaction involves assets purchase | |
| Net profit | Not applicable since the Transaction involves assets purchase | |
| Consideration paid | = Value of assets acquired / Value of the Company's Total Assets<br>= THB 10,854.17[a] million / THB 25,509.76[b] million | 42.55% |
| Securities issued | Not applicable since the Transaction does not involve issuance of securities | |

Note: a. Exchange rate applied THB 32.517 per USD; and b. Per Company's audited consolidated financial statements as of 31 December 2013.

Size of the transactions in the past six months: The aggregate value of all such asset acquisition transactions during the past six months (including the above Transaction) would be about 91.59% of the value of the Company's total assets which is, therefore, subject to certain disclosure requirements and the shareholders' approval as a Class 1 Transaction. According to the Notification mentioned above, Class 1 Transaction means "decisions to enter into transactions between a listed company or any of its subsidiaries and a person which is not a listed company, the value of which, calculated in accordance with any of the bases specified, is equal to 50% or more but lower than 100%."

The Board of Directors of the Company has approved these acquisition transactions and has authorised the Executive Board of Directors to execute the relevant shipbuilding contracts, subject to all the shipbuilding contracts becoming effective after obtaining shareholders' approval.

1.3.1. Taizhou Sanfu Ship Engineering Co., Ltd. and Jiangsu Ruihai International Trade Co., Ltd.

Sanfu, established in 1985, currently has three factory areas, namely Kou'an site, Yong'an site and Taixing site, covering a total area of around 1.5 million square metres and more than 2,000 metres of natural shoreline of the Yangtze River. The company is located near the first class open port, Taizhou port, and large cities including Shanghai, Nanjing, Nantong, Suzhou and Wuxi.

At present, the shipyard has more than 7,000 workers and staff including over 500 engineering technicians and 800 qualified welders.
The shipyard has total assets amounting to over CNY 6.78 billion at present and includes seven slipways. The shipyard can build a large variety of bulk carriers, container vessels, MPC vessels, oil tanker/chemical vessels under 100,000 DWT, and tug boats under 10,000 HP, accommodation work barges, pipe lay barges as well as all kinds of deck barges under 50,000 DWT. It has an annual delivery capacity of 18 to 24 motor vessels, which have already been exported to Germany, South Africa, Italy, Singapore, Malaysia, South Korea, Greece, Denmark, Indonesia, etc. Presently, Sanfu has 52 new shipbuilding contracts which scheduled to deliver during 2014 – 2017.

Ruihai was established 2011 with registered and paid-up capital of CNY 400.00 million. It engages in trading of electromechanical and marine engineering spare parts, sales of garment and textile, and self-support and agent import and export of all kinds of goods and technology. Its business includes undertaking vessels' order, equipment import, etc. As of 31 December 2013, its revenue from its core business was CNY 478.49 million, its total assets and equity are CNY 514.59 million and CNY 471.11 million, respectively. Ruihai has successfully performed as an agent of two 57,000 DWT vessels, three 12,000 DWT vessels, twelve barges and equipment in a total of USD 82 million.

Sanfu and Ruihai jointly signed New Build Vessel contracts with PSL. In addition, Mr. Liu Yongtao, Vice General Manager of Sanfu, is one of Ruihai's major shareholders who holds 10% in Ruihai. He is Executive Director in Ruihai.

Table 1-5: Sanfu's financial highlights

| (CNY million) | 2011 | 2012 | 9M2013 |
|---|---|---|---|
| Total assets | 6,076.2 | 7,260.8 | 6,780.2 |
| Total liabilities | 3,794.1 | 3,908.3 | 3,235.3 |
| Total shareholders' equity | 2,282.1 | 3,352.6 | 3,544.9 |
| Total revenue | 5,655.8 | 5,071.2 | 3,159.5 |
| Operating income | 468.9 | 306.6 | 222.0 |
| Net profit | 406.3 | 270.7 | 200.5 |
| Operating profit margin (%) | 8.3% | 6.0% | 7.0% |
| Net profit margin (%) | 7.2% | 5.3% | 6.3% |
| Debt to equity ratio (times) | 1.66 | 1.17 | 0.91 |

Table 1-6: Ruihai's financial highlights

| (CNY million) | 2011 | 2012 | 2013 |
|---|---|---|---|
| Total assets | 438.6 | 474.8 | 514.6 |
| Total liabilities | 22.8 | 36.5 | 43.5 |
| Total shareholders' equity | 415.9 | 438.3 | 471.1 |
| Total revenue | 128.8 | 280.7 | 478.5 |
| Operating income | 11.9 | 30.0 | 43.7 |
| Net profit | 11.9 | 22.5 | 32.8 |
| Operating profit margin (%) | 9.2% | 10.7% | 9.1% |
| Net profit margin (%) | 9.2% | 8.0% | 6.9% |
| Debt to equity ratio (times) | 0.05 | 0.08 | 0.09 |

Table 1-7: Sanfu's major shareholders

| | Shareholder | No. of shares | Percentage |
|---|---|---|---|
| 1 | Taizhou Xiangyun Software Development Co., Ltd. | 16,830,000 | 51.0% |
| 2 | Santai Shipbuilding Pte. Ltd. | 16,170,000 | 49.0% |
| | **Total** | **33,000,000** | **100.0%** |

Table 1-8: Ruihai's major shareholders

| | Shareholder | No. of shares | Percentage |
|---|---|---|---|
| 1 | Taizhou Ruihai Investment Co., Ltd. | 360,000,000 | 90.0% |
| 2 | Mr. Liu Yongtao | 40,000,000 | 10.0% |
| | **Total** | **400,000,000** | **100.0%** |

Table 1-9: Sanfu's Directors and key management

| | Name | Position |
|---|---|---|
| 1 | Mr. Yang Yifeng | President and Director |
| 2 | Mr. Dong Yitao | Managing Vice General Manager |
| 3 | Mr. Liu Yongtao | Vice General Manager |
| 4 | Mr. Shen Zhenping | Vice General Manager |
| 5 | Ms. Qi Junhong | Director |
| 6 | Mr. Luo Zhong | Director |
| 7 | Mr. Zhu Xiang | Commercial Director |
| 8 | Mr. Huang Zhengdong | Finance Department Manager |

Table 1-10: Ruihai's key management

| | Name | Position |
|---|---|---|
| 1 | Mr. Liu Yongtao | Executive Director |

### 1.4. Details of the assets acquired

The new build vessels ordered are 12 bulk carriers (the "New Build Vessels"). The aggregate capacity of the vessels ordered is 766,690 DWT. After the delivery of these vessels and the delivery of 18 more vessels already ordered but not yet delivered and assuming no ships are sold until then, the Company's fleet will consist of 69 vessels with a combined size of 2,922,231 DWT. Details of the 12 vessels ordered are as follows.

Table 1-11: Details of the New Build Vessels

| | Date of transaction | Buyer | Seller | Hull no. | Type of vessel | Class | Expected delivery date | DWT | Price (USD million) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 26-Feb-14 | PSL | Sainty | SAM14019B | Bulk | Ultramax | 31-May-15 | 64,000 | 27.9 |
| 2 | 26-Feb-14 | PSL | Sainty | SAM14020B | Bulk | Ultramax | 31-May-15 | 64,000 | 27.9 |
| 3 | 26-Feb-14 | PSL | Sainty | SAM14021B | Bulk | Ultramax | 31-Aug-15 | 64,000 | 27.9 |
| 4 | 26-Feb-14 | PSL | Sainty | SAM14022B | Bulk | Ultramax | 31-Aug-15 | 64,000 | 27.9 |
| 5 | 26-Feb-14 | PSL | Sainty | SAM14023B | Bulk | Ultramax | 31-Oct-15 | 64,000 | 27.4 |
| 6 | 26-Feb-14 | PSL | Sainty | SAM14024B | Bulk | Ultramax | 31-Oct-15 | 64,000 | 27.4 |
| 7 | 26-Feb-14 | PSL | Sainty | SAM14025B | Bulk | Ultramax | 15-Dec-15 | 64,000 | 27.9 |
| 8 | 26-Feb-14 | PSL | Sainty | SAM14026B | Bulk | Ultramax | 15-Dec-15 | 64,000 | 27.9 |
| 9 | 26-Feb-14 | PSL | Sainty | SAM14027B | Bulk | Ultramax | 31-Mar-16 | 64,000 | 27.9 |
| 10 | 26-Feb-14 | PSL | Sainty | SAM14028B | Bulk | Ultramax | 31-Mar-16 | 64,000 | 27.9 |
| 11 | 17-Mar-14 | PSL | Sanfu&Ruihai | SF130128 | Bulk | Ultramax | 30-Nov-15 | 63,345 | 27.9 |
| 12 | 17-Mar-14 | PSL | Sanfu&Ruihai | SF130129 | Bulk | Ultramax | 15-Mar-16 | 63,345 | 27.9 |
| **Total** | | | | | | | | **766,690** | **333.8** |

### 1.5. Key terms and conditions

Key terms and conditions of the 12 shipbuilding contracts for the New Build Vessels are as follows:

1.5.1. Shipbuilding contracts for construction of 8 x 64,000 DWT bulk carriers (Hull no. SAM14019B–SAM14022B and SAM14025B–SAM14028B)

Table 1-12: Contract summary for construction of SAM14019B–22B and SAM14025B–28B

| | |
|---|---|
| **Contract date** | 26 February 2014 |
| **Buyer** | Precious Shipping PCL. and/or its nominee nominated before delivery |
| **Seller** | Sainty Marine Corporation Ltd., China |
| **Witnesseth** | The seller agrees to build, launch, equip and complete, and sell and deliver to the buyer after completion and successful trial of the vessels. The buyer agrees to purchase and take delivery of the vessel from the seller and pay for the vessels. |
| **Vessel** | Hull No. SAM14019B – SAM14022B and SAM14025B – SAM14028B<br>Deadweight/vessel: 64,000 DWT per vessel |
| **Contract price** | USD 27.90 million/vessel<br>The contract price shall include payment for service of inspection, tests and classification; specified costs and expenses for necessary drawings; and specified costs and expenses for certificates. |
| **Terms of payment** | First instalment: USD 2.79 million (10% of contract price) shall become due and payable, and be paid within five banking days after the first instalment refund guarantee has been delivered to the buyer.<br>Second instalment: USD 2.79 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) the commencement of the process of cutting steel; and 2) the buyer's receipt of the second instalment refund guarantee.<br>Third instalment: USD 2.79 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) the keel laying for the Vessel; and 2) the buyer's receipt of the third instalment refund guarantee.<br>Fourth instalment: USD 2.79 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) The launching of the Vessel; 2) The buyer's receipt of the launching certificates; and 3) The buyer's receipt of the fourth instalment refund guarantee.<br>Final instalment: USD 16.74 million (60% of contract price), plus any increase or less any decrease due to adjustments and/or modifications shall become due and payable and be paid upon the delivery of the vessel. |
| **Delivery** | a) The contract price shall remain unchanged for 30 days of delay in delivery.<br>b) If the delivery is delayed more than 30 days, the contract price shall be reduced as follows:<br>- From the 31st to 60th day: USD 7,500/day<br>- From the 61st to 90th day: USD 10,000/day<br>- From the 91st to 180th day: USD 12,500/day<br>Unless the parties hereto agree otherwise, the total reduction in the contract price shall be deducted from the final instalment and shall not be more than USD 1.65 million.<br>c) If the delay in the delivery of the vessel continues for a period of 150 days after the delivery date, the buyer may rescind or cancel the contract. |
| **Effectiveness** | The contract shall be effective upon the buyer obtaining its shareholder's approval. |

1.5.2. Shipbuilding contracts for construction of 2 x 64,000 DWT bulk carriers (Hull no. SAM14023B and SAM14024B)

Table 1-13: Contract summary for construction of SAM14023B and SAM14024B

| | |
|---|---|
| **Contract date** | 26 February 2014 |
| **Buyer** | Precious Shipping PCL. and/or its nominee nominated before delivery |
| **Seller** | Sainty Marine Corporation Ltd., China |
| **Witnesseth** | The seller agrees to build, launch, equip and complete, and sell and deliver to the buyer after completion and successful trial of the vessels. The buyer agrees to purchase and take delivery of the vessel from the seller and pay for the vessels. |
| **Vessel** | Hull No. SAM14023B – SAM 14024B, Deadweight/vessel: 64,000 DWT |
| **Contract price** | USD 27.40 million/vessel<br>The contract price shall include payment for service of inspection, tests and classification; specified costs and expenses for necessary drawings; and specified costs and expenses for certificates. |
| **Terms of payment** | First instalment: USD 2.74 million (10% of contract price) shall become due and payable, and be paid within five banking days after the first instalment refund guarantee has been delivered to the |

| | |
|---|---|
| | buyer.<br>Second instalment: USD 2.74 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) the commencement of the process of cutting steel; and 2) The buyer's receipt of the second instalment refund guarantee.<br>Third instalment: USD 2.74 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) The keel laying for the vessel; and 2) The buyer's receipt of the third instalment refund guarantee.<br>Fourth instalment: USD 2.74 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) The launching of the vessel; 2) The buyer's receipt of the launching certificates; and 3) The buyer's receipt of the fourth instalment refund guarantee.<br>Final instalment: USD 16.44 million (60% of contract price), plus any increase or less any decrease due to adjustments and/or modifications shall become due and payable and be paid upon the delivery of the vessel. |
| **Delivery** | a) The contract price shall remain unchanged for 30 days of delay in delivery.<br>b) If the delivery is delayed more than 30 days, the contract price shall be reduced as follows:<br>– From the 31st to 60th day: USD 7,500/day<br>– From the 61st to 90th day: USD 10,000/day<br>– From the 91st to 180th day: USD 12,500/day<br>Unless the parties hereto agree otherwise, the total reduction in the contract price shall be deducted from the final instalment and shall not be more than USD 1.65 million.<br>c) If the delay in the delivery of the vessel continues for a period of 150 days after the delivery date, the buyer may rescind or cancel the contract. |
| **Effectiveness** | The contract shall be effective upon the buyer obtaining its shareholder's approval. |

1.5.3. Shipbuilding contracts for construction of 2 x 63,345 DWT bulk carriers (Hull no. SF130128 and SF130129)

Table 1-14: Contract summary for construction of SF130128 and SF130129

| | |
|---|---|
| **Contract date** | 17 March 2014 |
| **Buyer** | Precious Shipping PCL. and/or its nominee nominated before delivery |
| **Seller** | Taizhou Sanfu Ship Engineering Co., Ltd. and Jiangsu Ruihai International Trade Co., Ltd., China, jointly and collectively called the sellers. |
| **Witnesseth** | The seller agrees to build, launch, equip and complete, and sell and deliver to the buyer after completion and successful trial of the vessels. The buyer agrees to purchase and take delivery of the vessel from the seller and pay for the vessels. |
| **Vessel** | Hull no. SF130128 and SF130129, Deadweight/vessel: 63,345 DWT |
| **Contract price** | USD 27.90 million/vessel<br>The contract price shall include payment for services in the inspection, test, survey and classification. |
| **Terms of payment** | First instalment: USD 4.185 million (15% of contract price) shall become due and payable, and be paid within five banking days after 1) the buyer obtained its shareholders' approval and 2) receipt of refund guarantee by the buyer.<br>Second instalment: USD 2.79 million (10% of contract price) shall become due and payable, and be paid within five banking days after 1) the launching of the vessel in the seller's shipyard, and 2) receipt of launching certificate by the buyer.<br>Final instalment: USD 20.925 million (75% of contract price), plus any increase or less any decrease due to adjustments and/or modifications, shall become due and payable and be paid upon the delivery of the vessel. |
| **Delivery** | a) The contract price shall remain unchanged for 30 days of delay in delivery.<br>b) If the delivery is delayed more than 30 days, the contract price shall be reduced as follows:<br>– From the 31st to 60th day: USD 5,000/day<br>– From the 61st to 90th day: USD 7,500/day<br>– From the 91st to 120th day: USD 10,000/day<br>– From the 121st to 210th day: USD 12,500/day<br>Unless the parties hereto agree otherwise, the total reduction in the contract price shall be deducted from the Final Instalment and shall not be more than USD 1.80 million.<br>c) If the delay in the delivery of the vessel continues for a period of 210 days after the delivery date, in such event, the Buyer may rescind or cancel the contract. |
| **Effectiveness** | The contract shall become effective upon fulfillment of all the following conditions:<br>– The buyer obtaining its shareholder's approval<br>– Receipt by the buyer of the refund guarantee<br>– Receipt by the seller of the 1st instalment of the contract price |

### 1.6. Total value of consideration

The total value of the consideration is USD 333.80 million or equivalent to THB 10,854.17 million, under the terms of the respective shipbuilding contracts. The expected payments to each seller are as follows:

Table 1-15: Expected payment schedule for the New Build Vessels

| (USD million) | 2014 | 2015 | 2016 |
|---|---|---|---|
| Sainty | 61.2 | 183.3 | 33.5 |
| Sanfu | 8.4 | 26.5 | 20.9 |
| **Total** | **69.6** | **209.8** | **54.4** |

### 1.7. Value of acquired assets

The aggregate contract price of the 12 vessels ordered is USD 333.80 million or equivalent to THB 10,854.17 million.

### 1.8. Calculation of consideration value

Value of considerations of the Transaction, value of 12 New Build Vessels is USD 333.80 million or THB 10,854.17 million with an average price of USD 27.82 million per vessel or THB 904.51 million.

### 1.9. Source of fund

The Company expects the primary source of fund for the 12 New Build Vessels of USD 333.8 million to be funded by internal cash reserves and operating cash flow for approximately 24% of the investment value or USD 80.66 million, and debt financing from financial institutions for approximately 76% of the investment or USD 253.14 million. As of 31 December 2013, the Company has cash and cash equivalents of THB 2,941.78 million or USD 89.651 million (Exchange rate THB 32.8137 to 1 USD).

The Company is currently in the process of selecting lenders, financial institutions for the New Build Vessels. The IFA was informed by the management that several financial institutions have expressed interest to provide loan facilities for the Company. The Company has received indicative terms and conditions for 11 new build vessels with credit facility of approximately USD 232.22 million. For the remaining 1 new build vessel that is expected to be delivered in 2016, the Company will negotiate the terms and conditions in the future by considering actual necessity of such funding in order to minimize the burden for the Company in terms of fees and other obligations. For this reason, the Company believes that the sourcing of fund for the New Build Vessels will be manageable.

The Company expects that the loan facilities will be repaid on a quarterly basis over the next 10 years with each instalment amounting to approximately 1.67% of the loan with last payment being 35% of the loan amount (Balloon payment term).

## 2. Company and industry information

### 2.1. Nature of business

Precious Shipping Public Company Limited ("PSL" or the "Company") was established in 1989 and listed on the SET in 1993. PSL owns and operates dry bulk ships, on a tramp shipping basis. Similar to other shipping companies, PSL has many subsidiaries with each owning one to three vessels in order to limit liabilities and risk exposure per ship.

PSL presently operates 40 bulkers (the "Fleet"), representing 1,355,797 DWT. Of the entire Fleet, 32 ships are registered under the Thai flag, and 8 ships under Singapore flag. 9 ships are in the Supramax sector and the balance 31 ships are in the small handy size sector of the dry bulk market.

PSL is one of the leading pure dry cargo ship-owning companies, owning and operating in the small Handysize (10,000 to 30,000 DWT) sector of the tramp freight market. This segment is extremely fragmented and characterised by a large member of companies with only two or three ships. In 2010, the Company entered the Supramax sector by taking over four new shipbuilding contracts for four Supramax ships, which were delivered in 2012. The Company expanded into this sector further by acquiring two more ships during the last quarter of 2011 and acquired three more ships in 2013. Naval architects have improved the design of Supramax (up to 57,000 DWT traditional size) further and increased the cargo carrying capacity to 64,000 DWT (known in the Industry as Ultramax) with eco-friendly fuel efficient engines without compromising much on draft restrictions. Given today's high fuel prices and increasingly stringent pollution regulations, Ultramax design is gaining popularity among ship owners. PSL entered this segment by signing shipbuilding contracts for six Ultramax ships with expected deliveries in 2014 – 2016. Similar to Supramax ships, Handysize ship design has also been improved and next generation handy size ships have increased capacity up to 39,000 DWT. PSL has also entered into this segment by signing shipbuilding contracts for six 38,000 DWT ships with expected deliveries in 2015 – 2016. PSL's Fleet is technically managed by Great Circle Shipping Agency Ltd, Bangkok, a wholly owned subsidiary of PSL that is ISO 9001 and ISO 14001 certified which makes it one of the very few dry bulk ship management companies in compliance with an Environment Management System certification.

PSL can operate its ships in ports that have restricted draft and limited infrastructure (PSL ships have their own equipment for loading/unloading) where larger ships cannot operate. This distinction is a competitive advantage which allows PSL to enjoy stable charter rates when compared to larger vessel operators. This advantage also enables the Company's ships to do business in developed countries as the cost of shore labour in such countries is prohibitive and the ship's staff, with the ship's gears, can easily discharge and/or load cargoes in such countries at a very economical cost and are preferred over larger gearless ships despite the latter's proven economy of scale. (Source: PSL Annual Report 2013/updated by the SET Opportunity Day 4Q2013 and notified letter to the SET dated 13 January 2014)

Based on present freight market and other available information related to expected new supply of ships, PSL believes that the shipping industry is entering an up-cycle which will continue until the early or middle part of 2016 before starting to slip as supply starts to increase again. Prices of new and second-hand ships began to rise since last year in expectation of the recovery. As such, the Company develops its strategy to rejuvenate and expand its fleet by placing orders for new shipbuilding vessels and disposing of some of the existing ones based on commercial consideration as PSL plans to upgrade its existing fleet with geared vessels of a bigger size, younger age and modern specifications.

Table 2-1: PSL's historical fleet

| (No. of vessels) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 1Q2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Scrapped/Sold | - | - | - | - | 10 | - | 20 | 5 | - | - | - | 1 |
| New vessels | 2 | 22 | 2 | - | - | - | 1 | 1 | 4 | 11 | 4 | 1 |
| Total ending vessels | 30 | 52 | 54 | 54 | 44 | 44 | 25 | 21 | 25 | 36 | 40 | 40 |
| Total DWT ('000) | 692 | 1,311 | 1,368 | 1,368 | 1,130 | 1,130 | 631 | 523 | 704 | 1,156 | 1,352 | 1,356 |
| DWT/vessel ('000) | 23 | 25 | 25 | 25 | 26 | 26 | 25 | 25 | 28 | 32 | 34 | 34 |
| Average age (year) | 16.60 | 17.35 | 18.98 | 19.98 | 19.59 | 20.59 | 17.08 | 15.43 | 14.20 | 11.36 | 11.35 | 10.40 |
| BDI (Annual avg.) | 2,617 | 4,510 | 3,371 | 3,180 | 7,065 | 6,390 | 2,617 | 2,758 | 1,549 | 920 | 1,206 | 1,369 |

As naval architects and engineers have steadily improved the operational efficiency of Handysize ships over the years, ships have also increased in size, from the 45,000 DWT Handymax ships of the 1990's to the 64,000 DWT Ultramax of today. During 2004 – 2008, naval architects developed larger ship designs as an effort to improve the cargo carrying capacity of ships in each size sector. This permitted owners to maximise cargo intake and charterers to lower freight costs to take advantage of rapidly rising Chinese commodity imports that drove freight rates to record highs. Due to the increase in fuel pricing over the past decade, engineers have also been seeking ways to reduce bunker oil consumption. The Handymax sector, covering Handysize, Supramax and Ultramax, has seen its share of dry bulk newbuilding orders rise to about 40% in the first half of 2013, the highest percentage, in number of ships, since 2000. Newbuilding orders for Ultramax have seen a 60% YOY rise within the Handymax sector.

Ultramax, a Supramax with a 10-metre longer length overall ("LOA"), offers a better investment for charterers and shipowners due to its higher cargo carrying capacity and better fuel efficiency (partially gained from derated engines with less horsepower) as compared to Supramax. Ultramax is designed to meet the latest pollution and environmental regulations that will become effective over the next few years. Ultramax provides its own crane and grabs equipment which is suitable for Asian trade. Ultramax becomes more popular compared to Handymax cargo as the shippers continually look for cheaper freight alternatives. (Source: PSL/Hellenic Shipping News dated 23 October 2013)

PSL's revenues are well diversified in terms of its business mix as can be seen as follows.

1) Voyage charters and time charters

The chartering of ships is mainly undertaken by PSL vide the following two options:

Time charter: Under this charter, the charterer pays charter hire to PSL to operate the vessel for an agreed time period. The Charterer bears all voyage costs including the cost of bunker fuels. It may be noted in this case that PSL (or the shipowning company) is not the lessor of the ship but is a service-provider since PSL retains full control with physical and legal possession of the Ship.

Voyage charter: Under this charter, the charterer pays freight to PSL to transport a particular cargo between two or more designated ports. In this case, PSL bears all the voyage costs including the cost of bunker fuels.

PSL's fleet does not follow set voyage routes, but each ship keeps moving across the globe depending on its charters. The fleet is hired on both, time charters as well as voyage charters, with typical duration of 1-3 months. The mix between the two types of business has historically been equal, until the year 2004 when this changed to an extent that almost all the ships were on time charters. In each of the years 2005 – 2006, the proportion of voyage charters increased marginally as compared to the year 2004. However during 2007-10 the equation changed again and about 99% of the journeys were time charters and only about 1% were voyage charters except during year 2009 where the proportion of voyage charters was marginally higher at 6% compared to about 1% in the years 2007, 2008 and 2010. However during 2011-13, the proportion of voyage/time charters changed with an increase in percentage of voyage charters to around 14% to 17% from 0.5% in 2010.

Figure 2-1: Voyage charters and Time charters

| Charter | (Number of Voyages and % of Total Voyages) | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Voyage Charters | 29 (14.08%) | 45 (16.73%) | 51 (14.92%) |
| Time Charters | 177 (85.92%) | 224 (83.27%) | 291 (85.08%) |

2) Commodities/Cargoes carried

Principal cargoes handled by PSL are agricultural products, steels, fertilisers, ores and concentrates, logs, coke and other items. The well spread diversification and nature of its operations (dry bulk shipping in the small handy size sector carrying essential basic commodities) enables PSL to minimise the impact of concentration risks in terms of commodities covered and economic cycles.

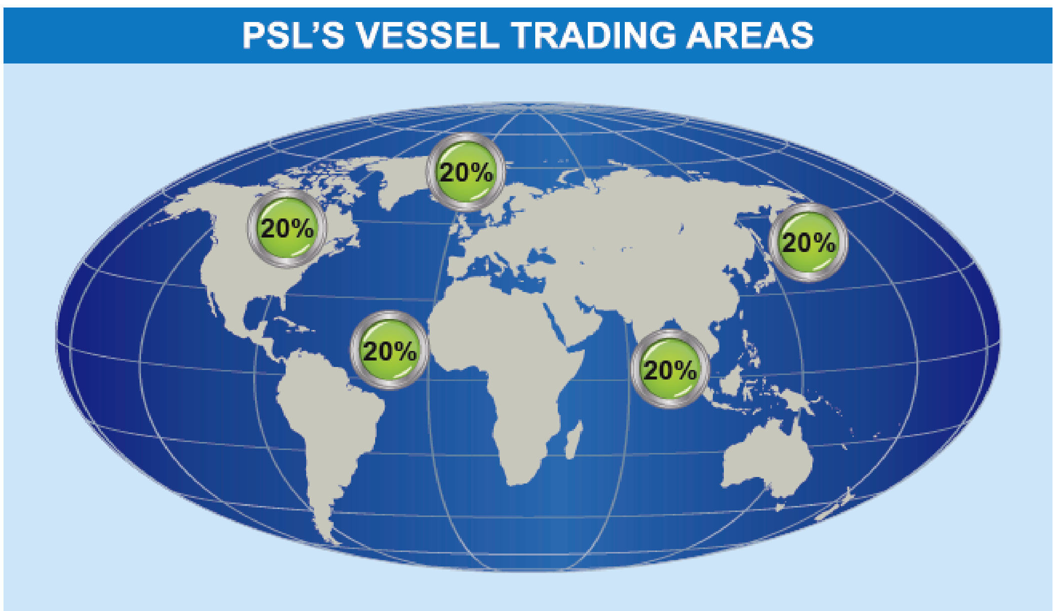
Figure 2-2: Commodities/Cargoes carried

| Commodity | (Number of Voyages and % of Total Voyages) | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| Agricultural Commodities | 51 | (24.76%) | 74 | (27.51%) | 96 | (28.05%) |
| Steel | 28 | (13.59%) | 31 | (11.52%) | 45 | (13.16%) |
| Fertilisers | 29 | (14.08%) | 39 | (14.50%) | 40 | (11.70%) |
| Specialised Ores | 33 | (16.02%) | 30 | (11.15%) | 48 | (14.04%) |
| Forest Products/Logs | 15 | (7.28%) | 25 | (9.29%) | 19 | (5.55%) |
| Coal | 10 | (4.85%) | 15 | (5.58%) | 26 | (7.60%) |
| Others | 40 | (19.42%) | 55 | (20.45%) | 68 | (19.90%) |
| **Total** | **206** | **(100%)** | **269** | **(100%)** | **342** | **(100%)** |

3) Vessel trading areas

PSL operates its Fleet on a tramp-shipping basis covering the entire world. The well spread diversification and nature of its operations (dry bulk shipping in the small handy size sector carrying essential basic commodities) enables PSL to minimise the impact of concentration risks in terms of regions and economic cycles. PSL estimates its business to be divided evenly across five regions: USA/Canada, Europe, Latin America-Africa, Indian sub-continent - Middle East, and South East & Far East Asia.

Figure 2-3: Vessel trading areas



4) Marketing network and major broker locations

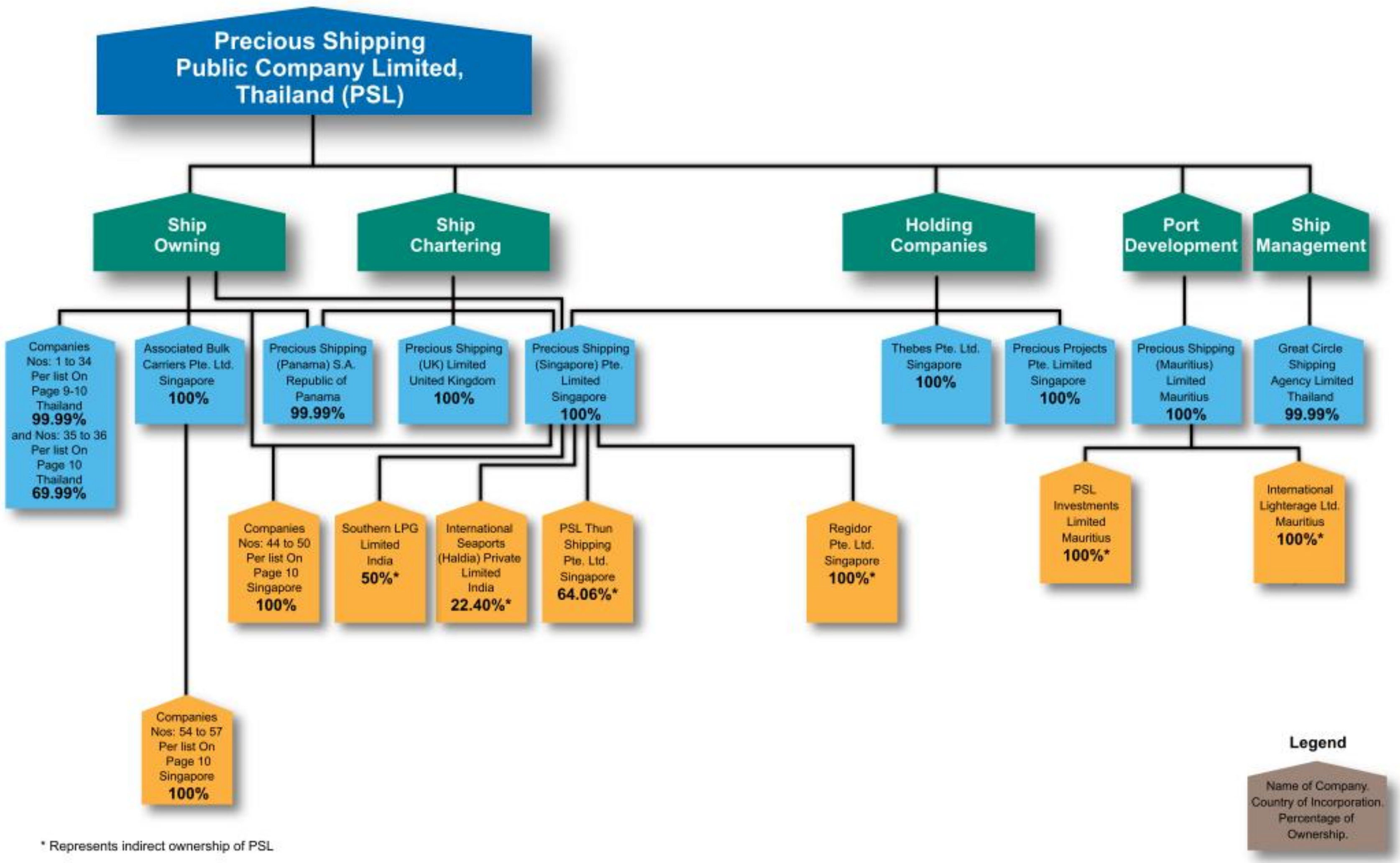
PSL enjoys a wide coverage with its top class world-wide marketing network. The extensive use of the internet has allowed this coverage to be obtained in an extremely cost effective manner.

Figure 2-4: Marketing network and major broker locations

## 2.2. Organisation structure

Figure 2-5: PSL's organisation structure




Source: PSL Annual Report 2013

### 2.3. List of shareholders

As of 28 March 2014 (the latest book closing date), the Company recorded a total registered capital of THB 1,039,520,600 fully paid-up, divided into 1,039,520,600 ordinary shares each of THB 1 par value. The 10 major shareholders and their shareholding proportions are listed below.

Table 2-2: PSL's major shareholders

| No. | Shareholder | No. of shares | Percentage |
|---|---|---|---|
| | Globex Corporation Limited | 266,625,206 | 25.65% |
| | Ms. Nishita Shah | 98,586,000 | 9.48% |
| | Graintrade Limited | 74,668,000 | 7.18% |
| | Unistretch Limited | 7,600,400 | 0.73% |
| 1 | *** Total shares under control of Ms. Nishita Shah** | **447,479,606** | **43.05%** |
| | Mr. Khalid Moinuddin Hashim (20,000 shares held at Securities Company included) | 87,610,850 | 8.43% |
| | Mr. Munir Moinuddin Hashim (1,728,000 shares held at Securities Company included) | 94,567,850 | 9.10% |
| 2 | **** Total shareholding of Hashim family** | **182,178,700** | **17.53%** |
| 3 | Thai NVDR Limited | 75,682,106 | 7.28% |
| 4 | STATE STREET BANK EUROPE LIMITED | 28,178,900 | 2.71% |
| 5 | STATE STREET BANK AND TRUST COMPANY | 15,111,918 | 1.45% |
| 6 | Phatra Capital Public Company Limited | 11,808,400 | 1.14% |
| 7 | GEDRA ENTERPRISES INC | 11,634,294 | 1.12% |
| 8 | BANQUE PICTET & CIE SA | 9,619,000 | 0.93% |
| 9 | NORBAX INC., 179 | 9,349,818 | 0.90% |
| 10 | HSBC (SINGAPORE) NOMINEES PTE LTD | 8,411,200 | 0.81% |
| 11 | Other shareholders (apart from the top 10 shareholders as mentioned above) | 240,066,658 | 23.09% |
| | **Grand total** | **1,039,520,600** | **100.00%** |

* Ms. Nishita Shah who is the Director of the Company is also the Director and Shareholder of Globex Corporation Limited, Graintrade Limited and Unistretch Limited
** Mr. Khalid Moinuddin Hashim is the brother of Mr. Munir Moinuddin Hashim

### 2.4. Board of Directors and management

1) Board of Directors

There are 12 directors on the Board of Directors of the Company, which consists of nine non-executive directors, five of whom are Independent Directors and three Executive Directors.

Table 2-3: PSL's Board of Directors

| | Name | Position |
|---|---|---|
| 1 | Mr. Thira Wipuchanin | Chairman of the Board of Directors and Independent Director |
| 2 | Mr. Khalid Moinuddin Hashim | Managing Director |
| 3 | Mr. Munir Moinuddin Hashim | Executive Director |
| 4 | Mr. Khushroo Kali Wadia | Executive Director |
| 5 | Mr. Jaipal Mansukhani | Director |
| 6 | Ms. Nishita Shah | Director |
| 7 | Mr. Kirit Shah | Director |
| 8 | Mr. Ishaan Shah | Director |
| 9 | Mr. Suphat Sivasriaumphai | Independent Director and Chairman of the Audit & Corporate Governance Committee |
| 10 | Mr. Chaipatr Srivisarvacha | Independent Director |
| 11 | Dr. Pavida Pananond | Independent Director and member of the Audit & Corporate Governance Committee |

| | Name | Position |
|---|---|---|
| 12 | Mr. Kamtorn Sila-On | Independent Director and member of the Audit & Corporate Governance Committee |

2) Executive Board of Directors

The following three directors are appointed by the Board of Directors as the Executive Directors on the Executive Board of Directors.

Table 2-4: PSL's Executive Board of Directors

| | Name | Position |
|---|---|---|
| 1 | Mr. Khalid Moinuddin Hashim | Managing Director |
| 2 | Mr. Munir Moinuddin Hashim | Director (Commercial) |
| 3 | Mr. Khushroo Kali Wadia | Director (Finance) |

## 2.5. Operating results and financial position

### 2.5.1. PSL's consolidated financial statements

Table 2-5: PSL's consolidated statement of financial position

| | 31 December 2011 | | 31 December 2012 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | THB million | % | THB million | % | THB million | % |
| Cash and cash equivalents | 4,374.7 | 19.1 | 1,901.0 | 7.9 | 2,941.8 | 11.5 |
| Trade and other receivables | 125.1 | 0.6 | 216.8 | 0.9 | 1,074.0 | 4.2 |
| Current portion of advances for vessel constructions | 1,327.3 | 5.8 | 483.0 | 2.0 | 593.1 | 2.3 |
| Bunker oil | 69.0 | 0.3 | 146.8 | 0.6 | 102.2 | 0.4 |
| Other current assets | 125.5 | 0.5 | 193.9 | 0.8 | 224.6 | 0.9 |
| **Total current assets** | **6,021.5** | **26.3** | **2,941.4** | **12.2** | **4,935.7** | **19.3** |
| Investment in associate held by a subsidiary | 111.7 | 0.5 | 104.7 | 0.4 | 102.4 | 0.4 |
| Other long-term investment | 8.2 | 0.0 | 8.0 | 0.0 | 8.5 | 0.1 |
| Receivables from cross currency swap contracts | 48.8 | 0.2 | 84.1 | 0.4 | 1.8 | 0.0 |
| Property, plant and equipment | 9,445.5 | 41.3 | 16,212.6 | 67.5 | 18,669.6 | 73.2 |
| Intangible assets | 22.8 | 0.1 | 12.9 | 0.1 | 4.1 | 0.0 |
| Claim recoverables - maritime claims | 41.6 | 0.2 | 45.6 | 0.2 | 139.4 | 0.5 |
| Advances for vessel constructions - net of current portion | 6,571.9 | 28.7 | 4459.4 | 18.6 | 1380.2 | 5.4 |
| Other non-current assets | 621.2 | 2.7 | 161.0 | 0.7 | 268.1 | 1.1 |
| **Total non-current assets** | **16,871.7** | **73.7** | **21,088.2** | **87.8** | **20,574.1** | **80.7** |
| **Total assets** | **22,893.2** | **100.0** | **24,029.7** | **100.0** | **25,509.8** | **100.0** |
| Trade and other payables | 207.2 | 0.9 | 253.9 | 1.1 | 221.3 | 0.9 |
| Advances received from charterers | 86.2 | 0.4 | 34.3 | 0.1 | 65.6 | 0.3 |
| Current portion of long-term loans | 718.5 | 3.1 | 802.0 | 3.3 | 653.9 | 2.6 |
| Income tax payable | 0.5 | 0.0 | 4.4 | 0.0 | 7.9 | 0.0 |
| Other current liabilities | 34.7 | 0.2 | 24.8 | 0.1 | 28.3 | 0.1 |
| **Total current liabilities** | **1,047.2** | **4.6** | **1,119.4** | **4.7** | **977.0** | **3.8** |
| Accrued employee bonus - net of current portion | 54.0 | 0.2 | 23.0 | 0.1 | 30.7 | 0.1 |
| Long-term loans - net of current portion | 6,307.8 | 27.6 | 8,265.0 | 34.4 | 8,618.9 | 33.8 |
| Provision for maritime claims | 64.6 | 0.3 | 67.7 | 0.3 | 175.6 | 0.7 |
| Provision for long-term employee benefits | 63.0 | 0.3 | 70.3 | 0.3 | 76.6 | 0.3 |
| **Total non-current liabilities** | **6,489.5** | **28.3** | **8,426.0** | **35.1** | **8,901.7** | **34.9** |
| **Total liabilities** | **7,536.7** | **32.9** | **9,545.5** | **39.7** | **9,878.7** | **38.7** |
| Share capital | 1,039.5 | 4.5 | 1,039.5 | 4.3 | 1,039.5 | 4.1 |

| | 31 December 2011 | | 31 December 2012 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | THB million | % | THB million | % | THB million | % |
| Issued and paid-up share capital | 1,039.5 | 4.5 | 1,039.5 | 4.3 | 1,039.5 | 4.1 |
| Paid-in capital | | | | | | |
| Premium on ordinary shares | 411.4 | 1.8 | 411.4 | 1.7 | 411.4 | 1.6 |
| Premium on treasury stock | 172.4 | 0.8 | 172.4 | 0.7 | 172.4 | 0.7 |
| Retained earnings | | | | | | |
| Appropriated | | | | | | |
| Statutory reserve - the Company | 104.0 | 0.5 | 104.0 | 0.4 | 104.0 | 0.4 |
| - subsidiaries | 518.1 | 2.3 | 518.1 | 2.2 | 523.3 | 2.1 |
| Corporate social responsibility reserve | 15.3 | 0.1 | 15.0 | 0.1 | 16.1 | 0.1 |
| Unappropriated | 14,521.7 | 63.4 | 14,193.8 | 59.1 | 14,299.8 | 56.1 |
| Other components of shareholders' equity | (1,459.1) | (6.4) | (1,971.2) | (8.2) | (946.0) | (3.7) |
| Equity attributable to owners of the Company | 15,323.4 | 66.9 | 14,483.0 | 60.3 | 15,620.6 | 61.2 |
| Non-controlling interests of the subsidiaries | 33.1 | 0.1 | 1.2 | 0.0 | 10.4 | 0.0 |
| **Total shareholders' equity** | **15,356.5** | **67.1** | **14,484.2** | **60.3** | **15,631.0** | **61.3** |
| **Total liabilities and shareholders' equity** | **22,893.2** | **100.0** | **24,029.7** | **100.0** | **25,509.8** | **100.0** |

1) Assets

As of 31 December 2013, the Company reported total assets of THB 25,509.76 million, which increased from THB 24,029.69 million as of 31 December 2012 or 6.16%, mainly due to the following reasons:

- Trade and other receivables increased to THB 1,073.96 million as of 31 December 2013 from THB 216.78 million as of 31 December 2012, mainly due to the increase in other receivables-unrelated parties of THB 835.69 million from advances for vessel constructions in 2013.
- Property, plant, and equipment increased to THB 18,669.56 million as of 31 December 2013 from THB 16,212.57 million as of 31 December 2012, mainly from the acquisition of vessels and equipment of THB 2,072.19 million in 2013.

2) Liabilities

As of 31 December 2013, the Company reported total liabilities of THB 9,878.73 million which increased from THB 9,545.46 million as of 31 December 2012, or 3.49% mainly due to the translation of liabilities denominated in USD at a higher exchange rate at the end of 2013 as compared to the previous year.

- PSL reported provision for maritime claims (reported as a non-current liability) which are recorded upon receipt of the claim advices from the charterers, based on the best estimate of the expenditure required to settle present obligation. It reported the balance of THB 175.62 million as of 31 December 2013, which increase from THB 67.70 million as of 31 December 2012. The main reason of increasing of this account was the increased in the receipt of the claim advices from the charterers, and the higher in average vessels from 30 to 39 from 2012 to 2013. However, PSL reported claim recoverables - maritime claims (reported as an asset) reported the balance of THB 139.37 million as of 31 December 2013 and THB 45.63 million as of 31 December 2012. Therefore, the net of provision for maritime claims as a liability were THB 36.25 million and THB 22.07 million as of 31 December 2013 and 2012, respectively.

3) Shareholders' equity

As of 31 December 2013, the Company reported total liabilities of THB 15,631.03 million which increased from THB 14,484.23 million as of 31 December 2012, or 7.92% mainly due to the other comprehensive income for 2013 of THB 1,025.61 million.

Table 2-6: PSL's consolidated statement of income

| | 2011 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|
| | THB million | % | THB million | % | THB million | % |
| Hire income | 2,102.7 | 68.3 | 2,180.5 | 62.5 | 2,618.0 | 67.9 |
| Freight income | 976.3 | 31.7 | 1,307.0 | 37.5 | 1,239.6 | 32.1 |
| **Total vessel operating income** | **3,078.9** | **100.0** | **3,487.5** | **100.0** | **3,857.6** | **100.0** |
| Service income | 4.8 | 0.2 | 11.2 | 0.3 | 11.2 | 0.3 |
| Gains on sales of equipment | 1.8 | 0.1 | 0.3 | 0.0 | 0.1 | 0.0 |
| Gains on novation/cancellation of shipbuilding contracts | 319.2 | 10.4 | 305.5 | 8.8 | 935.4 | 24.2 |
| Interest income | 26.1 | 0.8 | 20.3 | 0.6 | 8.5 | 0.2 |
| Exchange gains | - | - | - | - | 13.3 | 0.3 |
| Other income | 2.2 | 0.1 | 3.3 | 0.1 | 2.4 | 0.1 |
| Dividend received | 0.5 | 0.0 | - | - | - | - |
| **Total other revenues** | **354.6** | **11.5** | **340.5** | **9.8** | **971.0** | **25.2** |
| **Total revenues** | **3,433.5** | **111.5** | **3,828.0** | **109.8** | **4,828.6** | **125.2** |
| Vessel running expenses | 874.9 | 28.4 | 1,256.8 | 36.0 | 1,665.3 | 43.2 |
| Voyage disbursements | 131.3 | 4.3 | 218.0 | 6.3 | 172.3 | 4.5 |
| Bunker consumption | 327.1 | 10.6 | 570.9 | 16.4 | 548.4 | 14.2 |
| **Total vessel operating costs** | **1,333.3** | **43.3** | **2,045.6** | **58.7** | **2,385.9** | **61.8** |
| Depreciation | 646.6 | 21.0 | 910.3 | 26.1 | 1,136.7 | 29.5 |
| Cost of services | 5.6 | 0.2 | 4.3 | 0.1 | 4.9 | 0.1 |
| Administrative expenses | 185.5 | 6.0 | 177.7 | 5.1 | 218.3 | 5.7 |
| Management remuneration including perquisites | 99.4 | 3.2 | 88.4 | 2.5 | 109.3 | 2.8 |
| Bad debts and doubtful accounts | 0.1 | 0.0 | 12.1 | 0.3 | 2.0 | 0.1 |
| Exchange losses | 5.4 | 0.2 | 5.7 | 0.2 | - | - |
| **Total expenses** | **2,275.9** | **73.9** | **3,244.1** | **93.0** | **3,857.1** | **100.0** |
| **Profit before share of profit (loss) from investment in associate, finance cost and income tax expenses** | **1,157.6** | **37.6** | **583.9** | **16.7** | **971.5** | **25.2** |
| Share of profit (loss) from investment in associate held by a subsidiary | 7.6 | 0.2 | (2.4) | (0.1) | 31.6 | 0.8 |
| **Profit before finance cost and income tax expenses** | **1,165.2** | **37.8** | **581.5** | **16.7** | **1,003.1** | **26.0** |
| Finance cost | (440.8) | (14.3) | (433.7) | (12.4) | (458.6) | (11.9) |
| **Profit before income tax expenses** | **724.4** | **23.5** | **147.8** | **4.2** | **544.6** | **14.1** |
| Income tax expenses | (3.6) | (0.1) | (4.2) | (0.1) | (7.9) | (0.2) |
| **Profit for the year** | **720.8** | **23.4** | **143.7** | **4.1** | **536.7** | **13.9** |
| **Other comprehensive income:** | | **-** | | **-** | | **-** |
| Exchange differences on translation of foreign operation's financial statements | (23.9) | (0.8) | 0.2 | 0.0 | (19.2) | (0.5) |
| Exchange differences on translation of functional currency to presentation currency financial statements | 749.4 | 24.3 | (512.7) | (14.7) | 1,044.8 | 27.1 |
| Actuarial loss recognised during the year | - | - | (1.5) | (0.0) | - | - |
| **Other comprehensive income for the year** | **725.5** | **23.6** | **(514.1)** | **(14.7)** | **1,025.6** | **26.6** |
| **Total comprehensive income for the year** | **1,446.4** | **47.0** | **(370.4)** | **(10.6)** | **1,562.3** | **40.5** |
| **Total comprehensive income attributable to:** | | | | | | |
| Equity holders of the Company | 1,442.5 | 46.9 | (372.7) | (10.7) | 1,553.1 | 40.3 |
| Non-controlling interests of the subsidiaries | 3.8 | 0.1 | 2.3 | 0.1 | 9.2 | 0.2 |
| **Total comprehensive income for the year** | **1,446.4** | **47.0** | **(370.4)** | **(10.6)** | **1,562.3** | **40.5** |

4) Operating results

In 2013, total vessel operating income was THB 3,857.64 million, an increase of 10.61% from that of the previous year. The increase was mainly due to the higher average number of ships operated in 2013, an average of 39 vessels in 2013 compared to that of 30 vessels in 2012.

Table 2-7: PSL's operating results summary

| | 2012 | 2013 |
|---|---|---|
| Highest earnings/day/ship (USD) | 17,221 | 19,265 |
| Average earning/day/ship (USD) | 8,221 | 7,508 |
| Operating cost/day/ship (USD) | 4,481 | 4,535 |
| EBITDA (USD million) | 30.83 | 28.48 |
| Net profit (USD million) | 4.45 | 17.49 |
| Earnings per share (THB) | 0.14 | 0.51 |

The average earnings per day per vessel dropped from USD 8,221 in 2012 to USD 7,508 in 2013, due to continued weakness in the dry bulk freight markets. However, some improvements were noticed in the last quarter of 2013.

In 2013, the absolute vessel running expenses increased by 33% as compared to 2012, mainly due to the increase in the number of ships operated. Moreover, the average vessel operating expenses per day per vessel (including depreciation/amortisation of dry docking/special survey expenses) slightly increased from USD 4,481 in 2012 to USD 4,535 in 2013.

PSL had net profit for 2013 at THB 536.66 million, higher than net profit of THB 143.68 million in 2012. PSL reported other comprehensive income for the year 2013 at THB 1,5662.26 million, compared with THB (370.38) million in 2012 mainly due to the exchange differences on translation of functional currency to presentation currency financial statements at THB 1,044.78 million in 2013, which mainly due to appreciation of USD in terms of THB, thereby increasing the value of net assets, mainly property, plant, and equipment and advances paid to Ship Builders under new shipbuilding contracts.

Table 2-8: PSL's consolidated statement of cash flow summary

| (THB million) | 2011 | 2012 | 2013 |
|---|---|---|---|
| Net cash flows from operating activities | 1,050.6 | 751.2 | 1,012.8 |
| Net cash flows from investing activities | (2,274.4) | (4,537.0) | 1,199.9 |
| Net cash flows from financing activities | 1,150.6 | 1,430.2 | (1,289.4) |
| Increase (decrease) in translation adjustments | 224.5 | (118.0) | 115.7 |
| **Net increase (decrease) in cash and cash equivalents** | **151.3** | **(2,473.7)** | **1,039.0** |
| Cash and cash equivalents at beginning of year | 4,223.4 | 4,374.7 | 1,901.0 |
| Increase cash from acquisition of a subsidiary | - | - | 1.8 |
| **Cash and cash equivalents at end of year** | **4,374.7** | **1,901.0** | **2,941.8** |

5) Cash flow

PSL's cash ending balance increased to THB 2,941.78 million as of 31 December 2013 from THB 1,901.01 million of the previous year, mainly due to the following changes:

- Changes in net cash flows from operating activities in 2013 total THB 1,012.76 million were mainly due to profit from operating activities of THB 1,085.54 million and operating assets increased of THB (52.89) million
- Changes in net cash flows from investing activities total THB 1,199.88 million were mainly due to cash received from novation/cancellation of shipping contracts of THB 4,708.88 million and cash paid for acquisitions of vessels and equipment, payment of dry-dock and special survey expenses of THB (1,730.11) million
- Changes in net cash flows from financing activities total THB (1,289.36) million were mainly due to cash received from long term debts of THB 2,025.83 million and repayment and prepayment of long-term loans of THB (1,749.97) million

2.5.2. Financial ratio analysis

Table 2-9: PSL's key financial ratios

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Liquidity ratio** | | | |
| Current ratio (times) | 5.75 | 2.63 | 5.05 |
| Cash ratio (times) | 4.18 | 1.70 | 3.01 |
| Account receivable turnover (times) | 38.70 | 20.40 | 16.95 |
| Average collection period (days) | 9.43 | 17.89 | 21.53 |
| Account payable turnover (times) | 6.23 | 8.87 | 10.04 |
| Average payment period (days) | 58.55 | 41.14 | 36.35 |
| Cash cycle (days) | (49.12) | (23.25) | (14.82) |
| **Profitability ratio** | | | |
| Gross profit margin (%) | 56.70 | 41.34 | 38.15 |
| Operation margin (excluding Gains on novation/ cancellation of shipbuilding contracts) (%) | 26.92 | 7.90 | 0.93 |
| Operation margin (%) | 37.60 | 16.74 | 25.18 |
| Net profit margin (%) | 23.41 | 4.12 | 13.91 |
| Return on equity (%) | 4.81 | 0.96 | 3.56 |
| **Efficiency ratio** | | | |
| Return on assets (%) | 3.36 | 0.61 | 2.17 |
| Return on fixed assets (%) | 9.10 | 1.12 | 3.08 |
| Asset turnover (times) | 0.02 | 0.01 | 0.04 |
| **Leverage ratio** | | | |
| Debt to equity ratio (times) | 0.49 | 0.66 | 0.63 |
| Interest coverage ratio (times) | 2.64 | 1.34 | 2.19 |
| Dividend pay-out ratio (%) | 80.00 | 286.00 | 78.00 |

1) Liquidity ratio

The Company showed improvement on its liquidity ratio in 2013 when compared to the prior year. Current ratio increased from 2.63x in 2012 to 5.05x in 2013. Cash cycle period was still healthy as the average collection period was less than the average payment period, approximately at 14.82 days in 2013.

2) Profitability ratio

The Company had a gross profit margin of 38.15% in 2013, lower than that of 2012 at 41.35%, mainly due to lower average earnings per vessel and higher operating expenses. Operating profit margin (excluding Gains on novation/cancellation of shipbuilding contracts) in 2013 were 0.93%, which was lower than 7.90% in 2012 mainly due to the lower in revenue per vessel and the higher in operating expenses per vessels. For operating profit margin of 25.18% in 2013 increased from the prior year at 16.74% due to the higher gains on novation/cancellation of shipbuilding contracts in of THB 629.96 million in 2013 when comparing to the previous year. Net profit margin in 2013 was 13.91%, higher than the prior year at 4.12%. Return on equity showed 3.56% in 2013, comparing with 0.96% in 2012.

3) Efficiency ratio

In 2013, the Company had a return on assets of 2.17% and return on fixed assets of 3.08%, increasing from the prior year due to the increase in net profit.

4) Leverage ratio

In 2013, the Company had a debt to equity ratio of 0.63x which slightly decreased from 0.66x in the prior year. Interest coverage ratio improved from to 1.34x in 2012 to 2.19x in 2013.

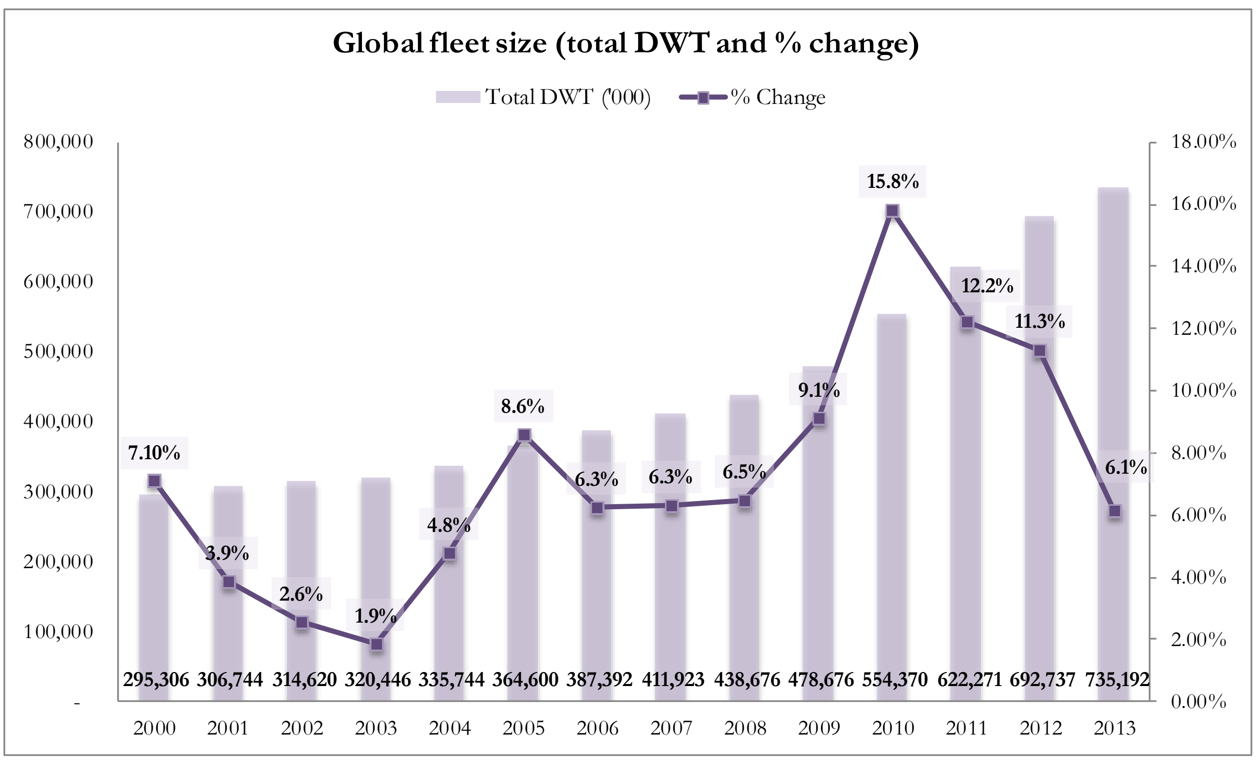
## 2.6. Shipping industry

### 2.6.1. Overview

The shipping industry is very cyclical and global by nature. Its business and freight rates respond to supply and demand. The industry has been strongly affected by the economic crisis. The downturn in trade has directly led to a slowdown in demand for transport and related services, while supply cannot be immediately responded to change in demand. The cycle generally takes approximately two to four years of declining charter rates which last until demand and supply is stabilised. Previously, the "down-cycle" started mid-1997 due to the Asian crisis affect the shipping demand. The dry bulk demand improved in 2000 due to a gradual recovery in global economics. Such recovery continued until the first half of 2001, and then it witnessed a downturn again at the end of 2001. An upward trend began in the second half of 2003, and remained steady throughout 2004. In the first half of 2005, the industry experienced a downturn because of an upsurge in vessel supply and a decline in scrapping of older vessels.

The shipping and trade index, Baltic Dry Index ("BDI") created by the London-based Baltic Exchange, is a measure of what it costs to ship raw materials, e.g. metals, grains, fossil fuels, etc., by sea. In 2007, BDI continued to increase and reached 11,039 points on 13 November 2007. At that time, the new build vessels had been ordered while BDI was in an upward trend. After that, BDI started to drift lower until the end of January 2008. The BDI then increased to reach the highest level at 11,793 points on 20 May 2008. Unfortunately, the financial crisis and credit crunch that occurred in the second half of 2008 led to a sharp decline of global trading and BDI reached the lowest point on 5 December 2008.

Figure 2-6: Global fleet size (Total DWT and % change)



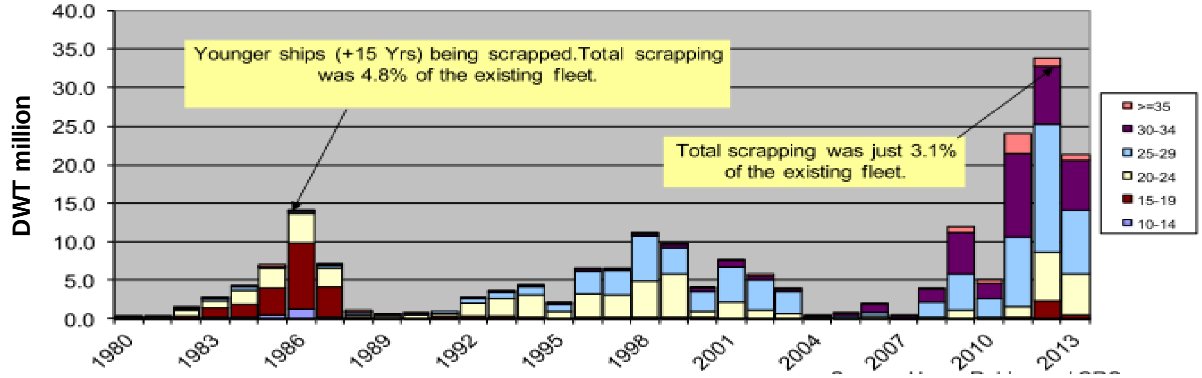

Source: PSL - The SET Opportunity Day - 4Q2013

During 2008 – 2011, the decline of BDI was mainly due to the following factors:

- Demand: Shipping demand for commodities e.g. iron ore, coals, steels, etc., was slow down during the global financial crisis and the EU debt crisis, resulting in a decrease in freight rates.
- Supply: The number of new build vessels grew rapidly at 6.5% YOY, 9.1% YOY, 15.8% YOY, and 12.2% YOY, respectively, or increased approximately 183.60 million DWT during the period as the global fleet size increased (as shown in Figure 2-6: Global fleet size).

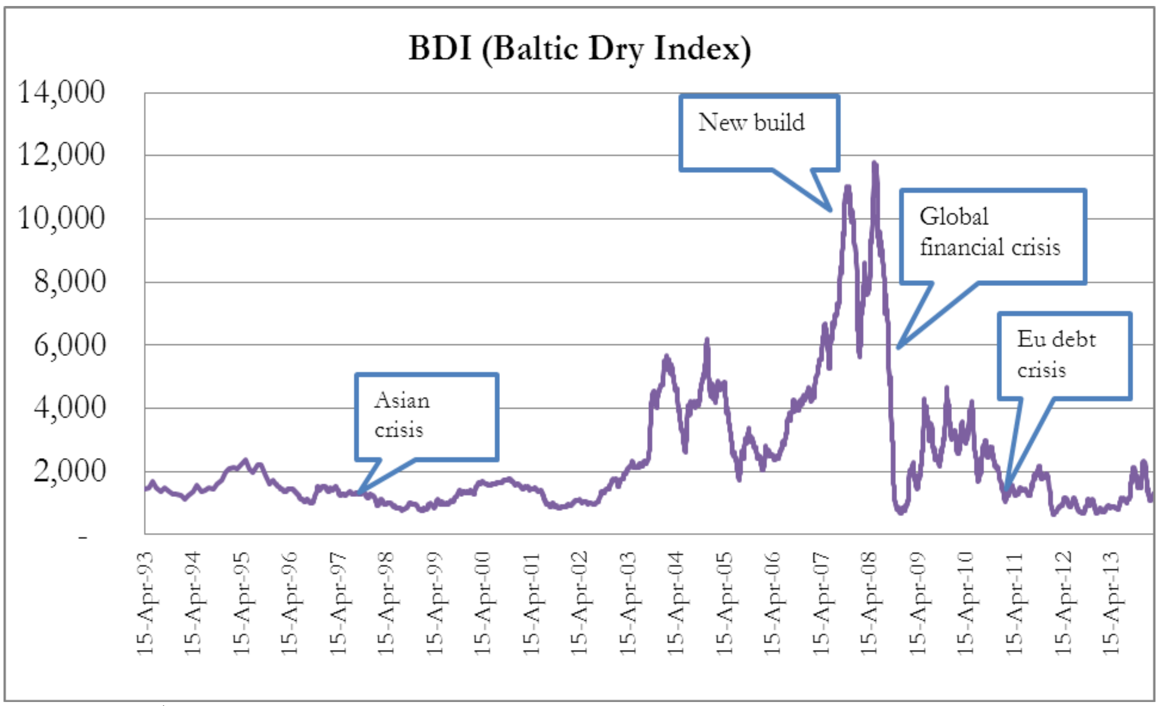
Figure 2-7: Scrapping activities by DWT by age group of vessel as of 1 January 2014




Source: PSL/ Howe Robinson/CRS

With a predominantly upward momentum, the BDI rose from 699 points in 2012 to 2,277 points in 2013 due to lower new build deliveries and stabilisation in China's economic activities, together with a recent surge in iron ore imports in 3Q2013.

Figure 2-8: Baltic Dry Index




Source: Bloomberg/PSL

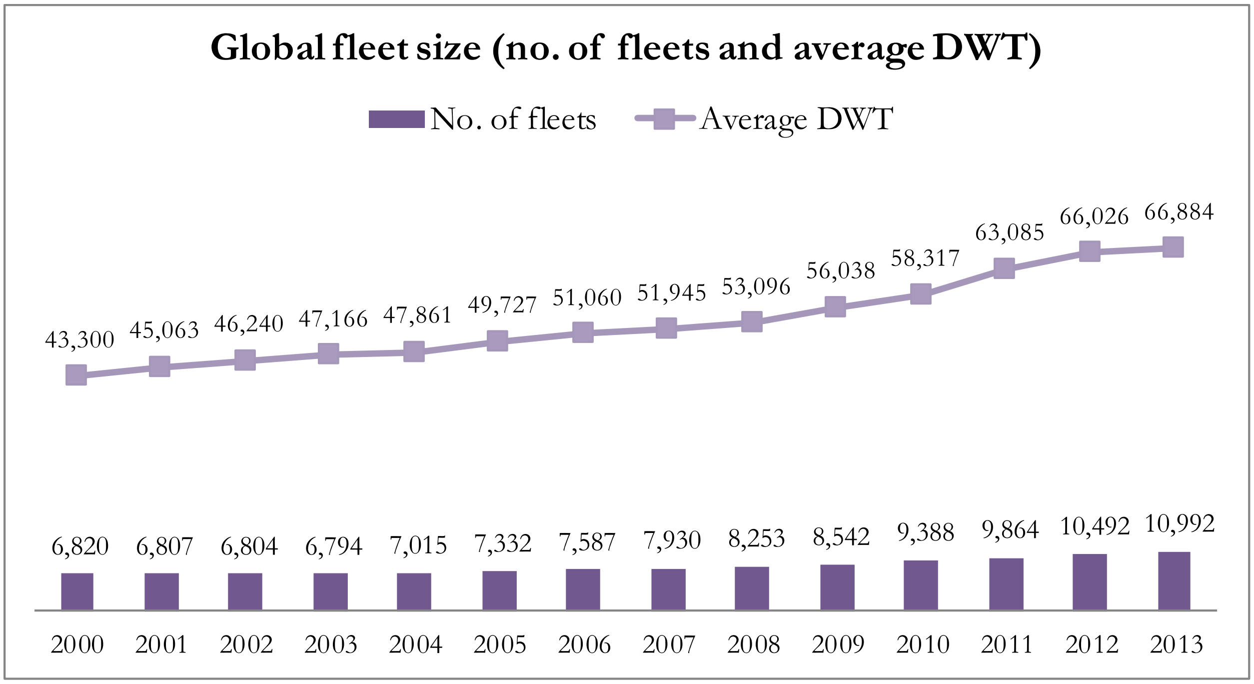
2.6.2. Supply

The scrapping activities significantly increased during 2011 – 2013. Supply of new build vessels, as shown in Figure 2-6: Global fleet size began to slow down but was expected to grow at a single digit rate compared to the double-digit growth rates during 2010 – 2012. Therefore, supply of new build vessels would be estimated to increase at a slower rate in the future, which will result in higher freight rates thereby taking the BDI higher.

According to Figure 2-9: Supply of global fleets, the global fleets included 10,992 vessels at the end of 2013. Average size of the global fleets was 66,884 DWT. Average DWT historically increased implying that the average fleet size would be larger. However, growth of DWT increased at lower rate during 2010 – 2013, from +15% YOY in 2010 to +6.1% YOY in 2013.

Figure 2-9: Supply of global fleets

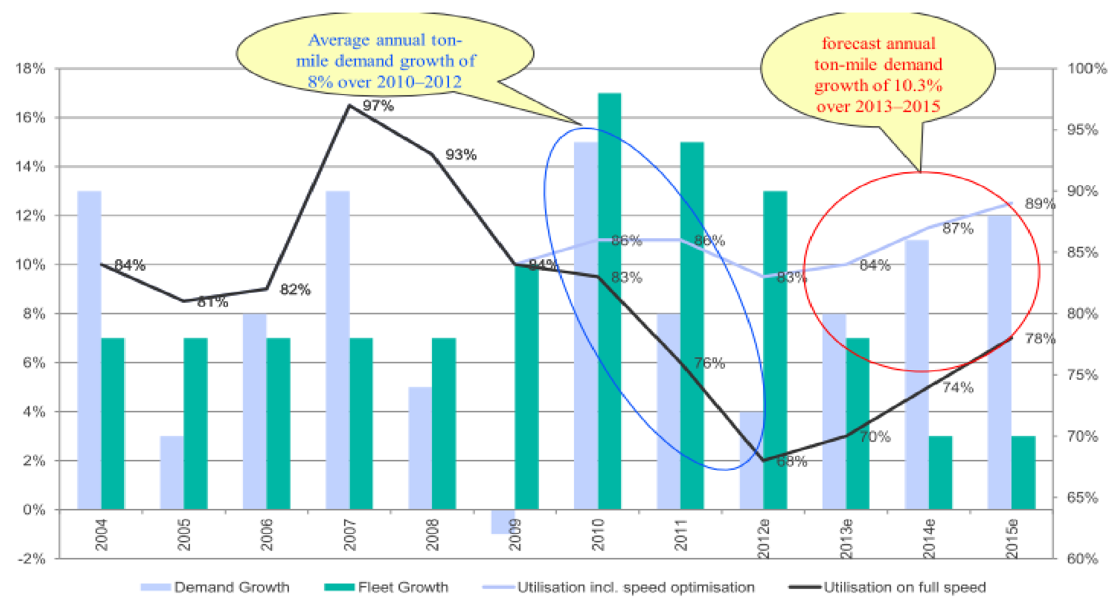



Source: PSL/Bloomberg

2.6.3. Demand

The DNB Market, an investment banking division of DNB Bank ASA, Norway's largest financial services group, forecast dry bulk utilisation shows an upward trend of demand from 2013 onwards, while the growth of the supply of new ships is expected to remain low for the next 2-3 years.

Figure 2-10: Demand and fleet growth




Source: The SET Opportunity Day – 4Q2013/DNB Market

The BDI has rebounded since the end of 2013 and, if the following news pieces are considered, the BDI is expected to go up even further over the next 2 years or so. (Source: Letter to the SET, MD&A 4Q2013).

The China Metallurgical Industry Planning and Research Institute, an industry group that provides consultancy for government policies, stated that China's iron ore imports are expected to rise 6.3% to a record of 850 million metric tonnes ("MMT") and China's steel output is expected to increase 3.8% to a new record of 810 MMT in 2014.

From Deutsche Bank end-of-the-year economic research "In China, we see growth picking up to 8.6% with five major drivers: 1) reduced over-capacity; 2) deregulation in sectors with massive under-capacity; 3) effectiveness of the government's efforts to "reactivate money stock"; 4) rising external demand; and 5) a pro-cyclical fiscal policy".

Hartland Shipping Services stated in their recent Points of View that "China's demand for raw materials steadily increases. The process of urbanisation rolls on, as does investment in infrastructure and social housing. But the real dynamic at play is the price and quality of imported versus domestically produced iron ore and coal. The ferrous content of China's iron ore is low and falling while the sulphur content of its coal is high and rising, a poor combination, leading to inefficient steelmaking and airborne pollution. The upshot is a necessary increase in iron ore and coal imports that is supporting freight rates for bulk carriers, as evidenced by the BDI. The Chinese authorities have announced tough new restrictions on the coal mining sector aimed at improving quality, reducing over-capacity, supporting coal prices and cutting pollution that is fast becoming a source of public anger. These latest measures propose to ban the mining of coal near residential or tourist areas and mandate the installation of dust abatement technology. Mines falling short of safety targets will be shut, any mine with output of less than 90,000 tonnes per annum will be phased out and approval of new mines with less than 300,000 tonnes per annum capacity will be halted. The latest plans also aim to reduce imports of low calorific value and high sulphur content coals from, for example, nearby Indonesia by substituting these with better quality imports from more distant sources in Australia, South Africa and Mozambique. This will be tonne-mile positive."

China's coal consumption is expected to hit 4.8 billion metric tonnes ("BMT") by 2020 forecasted the China National Coal Association.

From a recent report by Credit Suisse: "Grain carriage is the third largest dry bulk trade in the world, behind iron ore and coal, accounting for around 10% of all demand for dry bulk tonnage. However, its rate of growth should eclipse the two larger trades in 2014. We are looking for grain shipment tonnage to rise 13% and more in terms of tonne miles given Brazil's rising export importance and China's significant import demands – especially for soybeans."

RS Platou Markets, in their yearend report stated "For dry bulk the wild card is whether Chinese inventory buildups will continue and how much new iron ore production will come to market. Fleet growth will continue to moderate next year and should underpin the recovery in rates we have seen so far, but volatility will increase. The year that went past answered two important questions for the global shipping markets: Overcapacity is not as bad as feared and the world economy is finally gaining some real momentum. With fleet capacity growth now slowing, this augurs well for a stronger 2014 although absolute freight rate levels are unlikely to be spectacular."

The US Coal Exports to end 2013 are projected at 118 MMT, down 6.3% from record exports of 126 MMT in 2012, according to the Energy Information Administration's final Short Term Energy Outlook of the year. The report said continued economic weakness, increasing coal output from other coal-exporting countries and falling international prices are expected to keep US export demand in 2014 to 107 MMT.

Brazil's Iron Ore Exports for the full year are expected to be around 320 MMT, only marginally behind 2012s figure of 325 MMT. Australia iron ore exports by comparison were 491 MMT in 2012 and are expected to top 550 MMT in 2013. Despite this reduction in tonne-mile impact, the capesize (over 90,000 DWT) sector was the one that shone the brightest in the second half of 2013. It would therefore seem that supply/demand balance is close to or has already been reached in the dry bulk sector especially in the capesizes. This will lead to all the other sectors catching up and the cyclical upturn should show strong traction by the end of the first half of 2014.

Analysts at Morgan Stanley stated the following in a recent report "With global GDP on the mend and shipping capacity muted, we see improved fundamentals across most shipping segments. Pockets of weakness exist, but on balance, we see upside in rates and values, led by Dry Bulk and LPG segments. We expect dry bulk to outperform other shipping segments as demand is set to surpass fleet supply growth in 2014 for the first time since 2008."

From Deutsche Bank end-of-the-year economic research "In India, the economy has troughed, and 2014 would likely bring about an investment recovery, further gains in exports, and some strength in domestic consumption, especially in the rural area. Inflation would stabilise and then decline from mid-year onwards, while balance of payment stress would ease due to an improving current account and stronger capital flows."

### 2.6.4. World trade volume

World trade volume is an indicator for the demand of the shipping industry. International Monetary Fund ("IMF") published World Economic Outlook ("WEO") on 21 January 2014, as follows:

Table 2-10: World trade volume growth

| (%change per annum) | 2012 | 2013 | 2014F | 2015F |
|---|---|---|---|---|
| World Trade Volume (goods and services) | 2.7 | 2.7 | 4.5 | 5.2 |

Source: IMF

IMF forecast the World Trade Volume (goods and services) in 2014 and 2015 growth will be 4.5% YOY and 5.2% YOY respectively. Future demand for dry bulk shipping and BDI would increase driven by the factors mentioned above.

## 3. Reasonability and benefits of the Transaction

### 3.1. Objective and necessity of the Transaction

The objective of the asset acquisition is to upgrade and expand the Company's fleet by acquiring new and larger size vessels which is in line with the Company's strategy. The acquisition of New Build Vessels would enable the Company to modernise and expand its fleet capacity and thereby enhance its market share and competitiveness. To achieve the goal, the Company decided to execute the relevant shipbuilding contracts with Sainty and Sanfu & Ruihai, with effectiveness of each contract remaining subject to the shareholders' approval.

### 3.2. Advantages and disadvantages from entering and not entering into the Transaction

3.2.1. Advantages of entering into the Transaction

- Rejuvenation and modernisation of fleet

PSL is one of the leading pure dry cargo ship-owning companies operating in small handy size sector of the tramp freight market. The Company's strategy is to expand its fleet by acquiring larger, younger and modern fuel efficient vessels. The new larger Supramaxes with an increased cargo carrying capacity to 64,000 DWT (known in the Industry as Ultramax) with eco-friendly fuel, efficient engines without compromising much on draft restrictions is the way to go. The Ultramax design is gaining popularity among ship owners also due to the current high fuel prices and increasingly stringent pollution regulations. Its equipment for loading/unloading with the higher cargo carrying capacity makes the Ultramax vessel a better choice for coal shippers and traders. Therefore, the transaction would help the Company to maintain its position in the market and would enable it to take profit from expected cyclical upswing in 2015 to 2016.

An aging fleet has a low operating efficiency with high maintenance costs in contrast to a younger and more modern fleet. Therefore, the younger and more modern fleet will increase revenues from higher freight rates and reduce costs of operation, which will enable the Company to increase its operating efficiency. The Company is currently operating a fleet of 40 vessels with aggregated size of 1,355,797 DWT, or 33,895 DWT per vessel, and an average age of 10.40 years. The Company scrapped 1 cement carrier (M.V. Fujisan Maru) on 9 January 2014 due to old age and was delivered 1 cement carrier (Apinya Naree) on 25 March 2014. From 2014 to 2016, the Company expects delivery of 29 vessels from the 12 New Build Vessels, and 17 vessels previously ordered and not yet delivered. On the other hand, the Company is also planning to sell 21 of the existing vessels. A summary of PSL's future fleet is shown below.

Table 3-1: PSL's forecast fleet

| (No. of vessels) | 1Q2014 | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|---|
| Scrapped/Sold | 1 | 1 | 21 | - | - | - |
| New vessels | 1 | 6 | 17 | 7 | - | - |
| Total ending vessels | 40 | 45 | 41 | 48 | 48 | 48 |
| Total DWT ('000) | 1,356 | 1,543 | 1,916 | 2,311 | 2,311 | 2,311 |
| DWT/vessel ('000) | 34 | 34 | 47 | 48 | 48 | 48 |
| Average age (year) | 10.40 | 10.11 | 3.61 | 3.94 | 4.94 | 5.94 |

- Increase in revenue and profits

After entering into the Transaction, the Company's financial position and performance will be potentially affected by the Transaction. To evaluate the effect, the IFA prepared the Company's financial projection for 2014 – 2018 with key assumptions as follows:

1) New Build Vessels

The 12 New Build Vessels and 18 other new build vessels already contracted to be delivered during 2014 – 2016 are forecast to be paid and delivered as per the terms and conditions of their respective contracts.

2) Source of funds

The 12 New Build Vessels and 18 vessels to be delivered during 2014 – 2016 are forecast to be funded by the Company's internal cash and loans from financial institutions. Debt financing is projected to range from 77% of the contract prices at 4.50% - 6.00% finance cost. The loans are projected to be repayable in 40 quarterly instalments. Each repayment is expected to be approximately 1.67% of the loan except the final payment which is approximately 35.00% of the loan (Balloon payment).

The primary source of fund for the 12 New Build Vessels of USD 333.8 million will be internal cash reserves and operating cash flow for approximately 24% of the investment value or USD 80.66 million, and debt financing from financial institutions for approximately 76% of the investment or USD 253.14 million. As of 31 December 2013, the Company has cash and cash equivalents of THB 2,941.78 million or USD 89.651 million (Exchange rate THB 32.8137 to 1 USD).

The Company is currently in the sourcing-process of debt financing from several financial institutions for the New Build Vessels. The IFA was informed by the management that several financial institutions have expressed their interests to provide loan facilities for the Company. The Company has received indicative terms and conditions for 11 new build vessels with approximate facility of USD 232.22 million. For the remaining 1 new build vessel that is expected to be delivered in 2016, the Company will negotiate the terms and conditions in the future by considering actual necessity of such funding as to not create burden for the Company in term of fees and other obligations. For this reason, the Company believes that the sourcing of fund for the New Build Vessels will be manageable.

Out of 18 vessels to be delivered, the Company signed loan agreements amounting USD 38.69 million for funding of 2 new vessels and received indicative term sheets from various financial institutions as potential sources of fund amounting approximately USD 235.05 million for other 12 new vessels. For the remaining 4 new vessels that are expected to be delivered in 2016, the Company will negotiate the terms and conditions in the future by considering actual necessity of such funding as not to create burden for the Company in term of fees and other obligations. The total amount of fund for building all 30 new vessels is USD 783.82 million.

3) Revenue

In 2013, Most of the Company's charter revenue came from time charter (charterer pays charter fee for agreed time) for 68% of total charter revenue, while revenue from voyage charter (charterer pays charter fee for a voyage between two or more designated ports) accounts for 32% of total charter revenue. In a particular voyage, there are voyage expenses covering bunker fuel and voyage disbursements at ports of call. Voyage disbursements include port fees, cargo loading and unloading expenses, canal tolls, agency fees and other expenses at the ports of call. Voyage expenses are typically paid by the charterer under time charter and by the Company under voyage charter. However, Company typically adds voyage expenses in calculating voyage charter rate so that the desired time charter rate is achieved had the Company negotiated the voyage charter as a time charter (Source: Company Annual Report 2013).

For this reasons, the vessels are forecast to be hired at a time charter rate. Due to the cyclicality of the business, it is difficult to predict the exact movement of time charter rates. Therefore, the time charter rate for each vessel type is forecast as a 25-year average historical time charter rate (Source: Clarksons, one the world's leading provider of integrated shipping services with worldwide respected research house), adjusted to account for size, capacity and potential discount from market time charter rate, or current contract time charter rate (Calculation of time charter rates in Appendix 3).

Table 3-2: Forecast time charter rate for each vessel type

| Vessel type | Time charter rate (USD/day/vessel) |
|---|---|
| Handysize | 9,401 – 11,164 |
| Supramax | 13,160 – 13,408 |
| Ultramax | 16,597 |
| Cement carrier | 15,000 |

Based on historical data, all the vessels are forecast to operate 350 days/year while the remaining 15 days/year is for repair and maintenance.

4) Operating expenses

Operating expenses excluding dry docking and special survey expenses comprise crew, lubricant oil, supplies, spares, repair and maintenance, insurance and others. Operating expenses per day are forecast based on PSL's estimation, depending on the type and age of vessels. The operating expenses shall be paid 365 days/year. The operating expenses range from USD 3,300/day/vessel to USD 4,000/day/vessel in the first year, and increase by 1.5% - 2.5% for the following years. The forecast operating expenses are in line with the average actual expenses over the past two years under the assumption that the vessels are in similar ages.

5) Dry docking and special survey expenses

The first dry docking and special survey are assumed to be performed when the vessels reach an age of three years and five years, respectively. From here on dry dockings and special surveys will be performed every five years. Based on PSL's conservative estimation, dry docking and special survey expenses are forecast depending on vessel type and age. Such forecast expenses are in line with the average actual expenses in the past two years.

Table 3-3: Forecast dry docking and special survey expenses for all vessel type

| Expenses | Time | Dry docking and special survey expenses |
|---|---|---|
| Dry docking expenses | 1st time | USD 250,000 – 750,000 |
| | 2nd time onwards | Increase by USD 50,000 – 100,000 per time |
| Special survey expenses | 1st time | USD 350,000 – 1,000,000 |
| | 2nd time onwards | Increase by USD 50,000 – 100,000 per time |

6) Overhead costs

Overhead costs are forecast based on historical financial data with growth of approximately 2.41% p.a., as estimated by the management.

7) Sales of vessels

In 2015, the Company expects to sell 21 vessels for USD 194.00 million. On the average, the 6 vessels aged between 2 and 7 years old with an average size of 42,013 DWT and the 15 vessels aged between 18 and 25 years old with an average size of 23,929 DWT are expected to be sold at USD 17.21 and USD 6.05 million, respectively. The Company intends to replace the vessels aged between 2 and 7 years old which are second-hand or resale vessels by the new vessels with superior specifications.

8) Useful life and depreciation

The useful life of vessels is 25 years based on the depreciation accounting policy. The vessels are depreciated using the straight line method.

9) Dividend payment

According to the Company's dividend policy, the dividend payment is forecast at 25% of net profit.

Based on the above assumptions, the summarised financial forecasts for 2014 – 2018 are as follows:

Table 3-4: PSL's 5-year financial forecast

| USD million | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| **Summarised balance sheet** | | | | | |
| Total assets | 907.57 | 1,115.59 | 1,253.81 | 1,261.71 | 1,267.42 |
| Long-term loans | 386.92 | 543.51 | 625.36 | 575.74 | 526.12 |
| Total liabilities | 405.76 | 559.70 | 645.45 | 596.68 | 547.06 |
| Total shareholders' equity | 501.81 | 555.89 | 608.36 | 665.03 | 720.36 |
| **Summarised income statement** | | | | | |
| Operating revenue | 158.91 | 163.37 | 221.41 | 230.22 | 229.29 |
| Operating and dry docking and special survey expenses | (67.44) | (60.41) | (70.06) | (73.20) | (76.45) |
| Gross profit | 91.47 | 102.96 | 151.36 | 157.03 | 152.84 |
| Overhead cost | (10.00) | (10.25) | (10.50) | (10.75) | (11.00) |
| Depreciation | (31.66) | (33.16) | (41.93) | (42.80) | (42.38) |
| Other expenses | (1.02) | (0.49) | (0.49) | (0.49) | (0.49) |
| Gain (loss) on sales of vessels/novations/cancellation | 2.39 | 30.94 | - | - | - |
| Other revenues | 1.41 | 1.82 | 2.52 | 3.41 | 4.25 |
| EBIT | 52.59 | 91.81 | 100.95 | 106.40 | 103.22 |
| Finance expenses | (18.66) | (19.70) | (30.99) | (30.84) | (29.44) |

| USD million | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Net profit | 33.93 | 72.11 | 69.96 | 75.56 | 73.77 |
| **Summarised cash flow statement** | | | | | |
| Net operating cash flow | 78.39 | 106.07 | 118.08 | 116.85 | 117.98 |
| Net investing cash flow | (215.73) | (370.63) | (134.01) | 0.00 | 0.00 |
| Net financing cash flow | 90.37 | 303.10 | 64.36 | (68.51) | (68.06) |
| Beginning cash | 89.65 | 42.69 | 81.23 | 129.66 | 178.00 |
| Net cash flow | (46.97) | 38.55 | 48.43 | 48.35 | 49.92 |
| Ending cash | 42.69 | 81.23 | 129.66 | 178.00 | 227.92 |

Note: Other expenses including fees and expenses on loans and others are forecast based on historical financial date and management estimation.
Other revenues including interest revenues and others are forecast based on management estimation.
In January 2014, the Company sold 1 cement carrier vessel with gain on sale of USD 1.03 million. In 2014, the Company expects to cancel 1 shipbuilding contract with ABG Shipyard Ltd. with expected gain on cancellation of this contract for USD 1.36 million.

Based on the Company's summarised financial forecast 2014 – 2018 above, the Company will gain higher operating revenue and profit from a larger fleet especially during 2014 – 2016 where 30 new vessels will be delivered. If the shipping market takes an upswing in the future, the Company can take advantage of a potentially buoyant market. The Company's forecast growth rates in revenue, gross profit, EBIT and net profit over 2014 – 2018 are as follows:

Table 3-5: Forecast revenue and profit growth

| | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Revenue growth | 56.7% | 2.8% | 35.5% | 4.0% | (0.4%) |
| Gross profit growth | 133.4% | 12.6% | 47.0% | 3.7% | (2.7%) |
| EBIT growth | 69.2% | 74.6% | 10.0% | 5.4% | (3.0%) |
| Net profit growth | 91.2% | 112.5% | (3.0%) | 8.0% | (2.4%) |

In 2015, the Company's revenue growth is expected to drop due to the sale of 21 vessels. In 2018, the Company's revenue is forecast to slightly decrease as a long-term charter contract of 1 Handysize vessel with higher charter rate than the forecast rate will end in this period. This valuation assumes for conservative purpose that no additional vessels will be built or purchased, and the time charter rate will remain constant while operating expenses, dry docking and special survey expenses and overhead cost will increase over the forecast period. Therefore, the revenue, gross profit, EBIT and net profit in 2018 will also decrease. However, if the Company build or purchase new vessels, or time charter rates go up in the future, the Company's revenue and profit may increase.

- Increase in return on assets ("ROA") and return on equity ("ROE")

ROA and ROE reflect how well a company can generate profits from its invested assets and shareholders' capital. Due to increases in revenue and profits from the fleet expansion, the Company is expected to earn a higher ROA and ROE. The Company's forecast ROA and ROE over 2014 – 2018 are as follows:

Table 3-6: Forecast ROA and ROE

| | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| ROA | 4.0% | 7.1% | 5.9% | 6.0% | 5.8% |
| ROE | 6.9% | 13.6% | 12.0% | 11.9% | 10.7% |

- Lower weighted average cost of capital

Weighted average cost of capital ("WACC") represents the total cost of financing to the Company. By deciding to increase its use of cheaper financing sources, such as loans, the Company can finance the New Build Vessels at a lower cost. This potentially increases the Company's and shareholders' values. Given that WACC is calculated with the same formula and variables as the discount rate in section 4.2 except the values of interest bearing debt and shareholders' equity which vary over this forecast period, the Company current WACC of 11.37% shown in section 4.2 may decrease to 9.93% – 10.77%.

3.2.2. Disadvantages of entering into the Transaction

- Increase in leverage and interest burden

To finance the Transaction, the Company expects to use debt financing of approximately 76% of the aggregate contract price. The use of debt possibly affects the Company's financial status. As the Company is subject to loan covenants, it has to be wary of complying with the financial requirements. Forecast key financial ratios under loan covenants over 2014 – 2018 are as follows:

Table 3-7: Forecast key financial ratios under loan covenants

| | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Total liabilities excluding pre-delivery debt to equity ratio (times) | 0.8 | 1.0 | 1.1 | 0.9 | 0.8 |
| Debt service coverage ratio ("DSCR") (times) | 2.1 | 2.0 | 1.9 | 1.9 | 1.9 |
| Total liabilities excluding pre-delivery debt to annualised EBITDA (times) | 4.0 | 3.8 | 4.2 | 3.9 | 3.6 |
| Liquidity reserve ('000 USD/vessel) | 948.6 | 1,981.3 | 2,701.2 | 3,708.4 | 4,748.4 |

Note: Loan Financial Covenants:

- Total liabilities excluding pre-delivery debt to shareholders equity shall not be more than 2:1.
- Debt service coverage ratio (DSCR) shall be no less than 1.1 times
- Total liabilities excluding pre-delivery debt to annualised EBITDA shall not be more than 5:1.
- Liquidity reserve represents the amount of cash balance divided by the number of vessels. The Company shall maintain a minimum liquidity reserve at USD 100,000/vessel.

Based on the key financial ratios above, the Company is expected to be in compliance with the loan covenants.

The use of leverage will also increase the Company's interest burden, especially during 2014 - 2016 where the Company will start to draw down loans. An increase in interest expense may damage the Company's net profit margin over the loan repayment period. Nevertheless, as the Company can earn higher operating revenue from a larger fleet, its net profit margin is expected to be maintained at a satisfactory level. The Company's forecast net profit margin for 2014 – 2018 is as follow:

Table 3-8: Forecast net profit margin

| | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Net profit margin (%) | 20.9% | 36.8% | 31.2% | 32.3% | 31.6% |

Beside the impact on the Company's net profit margin, higher interest expenses may reduce the Company's cash flow and may possibly create cash flow constraint. However, based the financial forecast of the Company, the Company is expected to have sufficient cash flow for operation and debt obligation. Its DSCR, which reflects the Company's ability to generate enough cash flow to cover its debt payment, can be maintained at a satisfactory level of 1.90 – 2.10 times over the forecast period.

3.2.3. Advantages of not entering into the Transaction

- Lower financial leverage

Without the use of leverage to finance the Transaction, the Company may maintain its current financial conditions. It may not be exposed to the risk of loan covenant breach and debt obligation which possibly affects the Company's net profit margin and cash flow. On the other hand, the absence of a newer and larger fleet may be detrimental to the Company's market position, and ultimately affect its financial performance.

3.2.4. Disadvantages of not entering into the Transaction

- Loss of opportunity

The Company may lose its market position as one of the leading pure dry cargo ship-owning companies as Ultramax is gaining popularity among ship owners. As a result, the Company will also lose the opportunity to increase its freight rate, operating efficiency and profitability.

- No increase in operating revenue and profit

Larger fleet size will potentially increase the Company's charter income, especially with the expected shipping market upswing in the future. Moreover, as opposed to an aging vessel, a younger and more modern vessel can also charge a higher freight rate for its superior capacity and can be operated at lower operating costs. Opting not to enter into the Transaction, the Company, therefore, may lose the opportunity to increase its operating revenue and profits.

- No decrease in weighted average cost of capital

In the current condition in which the Company's cost of debt is lower than its cost of equity, the prudent use of leverage can potentially decrease the Company's WACC, which represents overall cost of financing. Deciding not to enter into the Transaction, the Company may lose the opportunity to lower its WACC.

### 3.3. Risks from entering into the Transaction

- Default by the counter parties

The Company is exposed to default risk by the shipbuilders in terms of execution under the terms of the shipbuilding contracts. The Company partially mitigated the risks by carefully evaluating the capacity of each shipbuilder in terms of meeting contracted delivery schedules and maintaining quality. In addition, the Company has also obtained bank guarantees to cover refund of pre-delivery instalments due to delay in deliveries apart from stringent penalties in the contracts. Sainty and Sanfu are experienced shipyard operators having built numbers of vessels. Sainty is a publicly listed company on the China Shenzhen Stock Exchange. Sainty owns two shipyards and a technical house specialising in ship design and technical services. The company successfully delivered its first vessels built for its customers in 2004. According to its 9M2013 financial highlights, Sainty recorded total revenue of CNY 2,355.2 million and net profit CNY 102.1 million. Its operating profit margin and net profit margin were 6.1% and 4.3%, respectively. Its leverage ratio, however, was quite high at 2.6 times. Sanfu is a large-scale ship building company. It has been conferred with various honorary titles since 2006 e.g. "Jiangsu Top 10 Shipbuilding Enterprises", "Taizhou Top 10 Privately-owned Enterprises", etc. The company has three factory areas covering a total area of 1.5 million square metres. Presently, the shipyard has more than 7,000 employees and subcontract team workers. More than 800 are welders who are certified by Chinese and international classification societies. Moreover, there are over 500 engineers and technicians in different engineering fields. According to the 9M2013 financial highlight, Sanfu had strong financial positions with total assets of CNY 6,780.2 million and a total equity of CNY 3,544.9 million. Its D/E ratio was 0.91 times. The company recorded an operating income of CNY 222.0 million and net profit of CNY 200.5 million.

- Late delivery

PSL realises that delays in the shipbuilding process would affect the delivery schedule of its vessels. Currently, the delivery schedule of the contracts provides the builders with some flexibility in the event of a nominal delay. The contract price remains unchanged for 30 days of delay in delivery otherwise the contract prices will be reduced as penalty. If the delay in the vessel delivery continues for a period of 150 days (210 days for the Sanfu ships) after the delivery date, the Company may rescind or cancel the contracts. However, the Company may lose the opportunity of replacing capacity and earning revenues from the delayed/cancelled vessels. In terms of payment to be made to the shipbuilders, each advance payment, except the last payment which is made on delivery, is to be secured by an irrevocable letter of guarantee in a form that has been agreed. The letter of guarantee is to be issued by a bank acceptable to the Company five days prior to any payment being made. The Company has unequivocal rights to present each letter of guarantee to the issuing banks, demanding payments with an interest of all amounts in the letter of guarantee. Therefore, payments made to the shipbuilders are adequately secured by letter of guarantee issued only by the banks acceptable to the Company.

- Vessel quality

In regard to performance of the construction of the vessels as per the design under the contracts, the parties have agreed to specifications for guaranteed deadweight, guaranteed speed and guaranteed fuel consumption, failing which, subject to certain conditions, penalties will be applicable. To secure its requirements on the vessels' quality, the Company will depute full time representatives, a team of highly qualified and experienced marine personnel, to supervise the construction of the ships and monitor the progress of vessels at the shipyards.

- Operational capability

The Company has over 25 years of experience in the shipping industry, surviving numerous industry cycles and crises. During the past 10 years, the Company had scrapped/sold 35 vessels and purchased 47 vessels.

While the fleet size is expected to increase from 39 to 48 vessels by 2016, the Company already has experience in operating 54 vessels from 2005 to 2006. Given its track record and historically strong financial results, we would consider that PSL is adequately capable for the transaction and operation of the vessels. The Company believes that there will be no major additional requirements to run the larger size Ultramax vessels, and it will be able to source and retain talent due to its fair and reasonable staffing policies.

- Source of fund

Due to the capital-intensive nature of the shipping business, the Company expects to raise approximately 76% of its funding requirement from external sources. Currently, the management is in negotiation with several financial institutions for raising the requisite amount of funds on terms and conditions that are in the Company's best interests. The Company is confident that with its strong track record and financial position, D/E ratio at 0.6 times, it will successfully close the commitment of funding shortly. However, the use of financial leverage will increase the Company's exposure to financial risk and interest rate fluctuation.

- Cyclical industry

In the possible event that a prolonged cyclical downturn persists during and after the delivery of new vessels, the Company may not be able to meet its obligation and financial covenants of its financing facilities. If the market value of the vessels drops below its cost, the Company may be required to impair its investment and may default on the loan to value covenants. Furthermore if the freight rates are persistently below a break-even operating rate, the Company may be forced to scrap its vessels. However based on a conservative projection of PSL, it is expected that its cash flows will be sufficient for operating, investing and financing activities and key financial ratios are within debt covenants.

- Freight rate volatility

The global shipping industry is cyclical and freight rates generally tend to be volatile. Its prospects are closely related to economic activities in the world. A higher level of economic growth would lead to a higher demand for industrial raw material, which in turn will boost world trade volume. In late-2008, shipping witnessed a decrease in demand due to the global economic downturn. The shipping industry has showed signs of recovery since the second half of 2013. Dry cargo ships are likely to see the strongest recovery, with growth in bulk commodity cargoes e.g. iron ore and coal outpaces supply of new tonnage for the first time in seven years. There is a risk that a cycle could be at a downturn in the future when the new build ships are delivered. Therefore, freight rates when the new ships are delivered would impact the Company's ability to charter these vessels at the expected rates. To mitigate the risk, the Company will try to fix most of the Company's vessels on long term charters at profitable rates.

- Exchange rate volatility

Payments under the contracts are to be made in USD though the Company presents its financial statements in THB. This could lead to unrealised losses for the advance payments made depending on an exchange rate of USD/THB at the end of each accounting period. However, as the Company's major sources of revenue and expense are effectively in USD, the Company has a policy to maintain its obligations in USD, which provides a natural hedge.

## 4. Appropriateness of the consideration and conditions of the Transaction

To evaluate the fair value of the New Build Vessels to be acquired by the Company, the IFA applies two approaches, namely appraisal value approach and net present value ("NPV") approach. In the appraisal value approach, the fair value of the New Build Vessels is based on the value appraised by the independent appraiser. In the NPV approach, the value of the New Build Vessels is determined by the present value of expected net future cash flows to be generated by the New Build Vessels. To evaluate appropriateness of the New Build Vessels' price, the IFA also compares the present value of the New Build Vessels with that of the second-hand vessels with similar specifications.

The purpose of this valuation is solely to determine the appropriateness of the price of the Transaction. Should there be unexpected changes in economic and other external factors that significantly affect the operation of the New Build Vessels, the valuation results may change accordingly.

### 4.1. Appraisal value approach

Hartland Shipping Services Limited ("Hartland") and Fearnleys Asia (Singapore) Pte. Ltd. ("Fearnleys") were appointed by the Company as two independent valuers for the valuation of the New Build Vessels.

#### 4.1.1. Hartland Shipping Services Limited

Hartland, established in 1981 and formerly known as Wardley Shipping Services and HSBC Shipping Services, was renamed to Hartland Shipping Services Ltd. following a management buyout in 2012. With offices in London, Shanghai and Singapore, Hartland offers a full range of specialised services for the shipping industry including shipbroking, research, consulting and vessel valuation services. Hartland is also an associate member of the Singapore Shipping Association.

According to the valuation certificates dated 18 March 2014 attached under appendix 1, the New Build Vessels are estimated based on current market comparable as between a willing buyer and a willing seller at USD 29.00 million per vessel or aggregate of USD 348.00 million for the 12 vessels.

#### 4.1.2. Fearnleys Asia (Singapore) Pte. Ltd.

Fearnleys offers ship broking and chartering services. The company is based in Singapore. Fearnleys operates as a subsidiary of Astrup Fearnley AS which engages in offshore, energy, project finance, capital markets, and advisory services businesses in Norway and internationally. Its offshore services include charter contracts, new building contracts, sale and purchase, project development, advisory, and market survey; and mobile offshore drilling units, accommodation and special purpose units, and floating production.

Astrup Fearnley AS was founded in 1869 and is based in Oslo, Norway with additional offices in Singapore, Shanghai, Bangkok, Mumbai, Seoul, Beijing, Hong Kong, Houston, Paris, and London.

According to the valuation certificate dated 18 March 2014 attached under appendix 2, the New Build Vessels are estimated based on a willing buyer and a willing seller, and the prevailing sale and purchase market condition at USD 29.00 million per vessel or aggregate of USD 348.00 million for the 12 vessels.

The two valuers resulted in the same valuation of the New Build Vessels as summarised below:

Table 4-1: Valuation results of appraisal value approach

| Valuer | Value/vessel (USD million) | Aggregated value of 12 vessels (USD million) |
|---|---|---|
| Hartland | 29.0 | 348.0 |
| Fearnleys | 29.0 | 348.0 |
| **Average** | **29.0** | **348.0** |

### 4.2. Net present value approach

The NPV approach is applied to determine the present value of net future cash flows to be generated by the New Build Vessels with the discount rate reflecting the risk of the business. To evaluate the appropriateness of the Vessels' price, the IFA compares the NPV of the New Build Vessels with that of second-hand vessels with similar specifications. Key assumptions are based on historical data, information and documents provided by the management as well as publicly available information. The forecast is prepared in monthly basis. The forecast periods begins as the Company enters into shipbuilding or second-hand vessel purchase contracts and ends until all the vessels are sold as scraps. The forecast periods for the New Build Vessels and second-hand vessels are 27 years and 2 months, and 17 months, respectively. The following are key assumptions made under base case.

1) New Build Vessels

The prices of the New Build Vessels are forecast to be paid as per the terms and conditions in the shipbuilding contracts. The vessels are expected to be delivered 30 days after the delivery date.

2) Second-Hand Vessels

The comparable second-hand vessels are composed of 12 identical eight-year-old Supramax 55,800 DWT bulk carriers (the "Second-Hand Vessels"). The cost of each vessel is USD 22.40 million based on the recent acquisitions of vessels in this size by a company listed on the Stock Exchange of Thailand during January – March 2014. Based on the report on second-hand vessel price in the market by Compass Maritime, a specialist in ship purchase, sale and charter as of 28 February 2014, this vessel cost is in line with the market price of second-hand vessel in similar size. According to the report, the second-hand prices of 5-year Supramax 56,000 DWT vessel and 10-year Supramax 56,000 DWT vessel are USD 26 million and USD 20 million, respectively.

Although the New Build Vessels in this Transaction and the Second-Hand Vessels are not strictly comparable, comparing the NPVs of those vessels can at least show appropriateness of this Transaction in comparison to similar investment choice.

The Second-Hand Vessels are forecast to be delivered within 90 days. The terms of payment are forecast to comprise two instalments: 10% of the price upon signing of the agreement, and the remaining 90% of the price upon the delivery of the vessels.

3) Useful life of vessels

The useful life of both the New Build Vessels and the Second-Hand Vessels are forecast at 25 years based the depreciation accounting policy. As the Second-Hand Vessels are 8 years at the beginning of the forecast period, their remaining useful life is 17 years.

4) Scrap value

When the vessels reach an age of 25 years, they are forecast to be sold as scrap. The New Build Vessels are forecast to have light displacement of 12,000 LDT based on estimations by PSL. The Second-Hand Vessel is forecast to have the same light displacement as the New Build Vessels. The scrap price is forecast at USD 400/LDT based on the report on demolition market by Clarksons and Hartland as of 28 February 2014. Thus the forecast scrap value per New Build Vessel and Second-Hand Vessel is USD 4.80 million.

5) Charter income

In this valuation, both the New Build Vessels and the Second-Hand Vessels are forecast to be hired at a time charter rate. The time charter rates for the New Build Vessels and the Second-Hand Vessels are forecast as follows (Calculation of time charter rates in Appendix 3):

Table 4-2: Forecast time charter rate

| Vessel type | Time charter rate (USD/day/vessel) | Source |
|---|---|---|
| New Build Vessels | 16,597 | 25-year average time charter rate (1989 – 2013, Clarksons) adjusted to account for size, capacity and potential discount from market time charter rate |
| Second-Hand Vessels | 13,310 | |

Based on historical data, all the vessels are forecast to operate 350 days/year while the remaining of 15 days/year is for repair and maintenance.

6) Operating expenses

Operating expenses excluding dry docking and special survey expenses comprise crew, lubricant oil, supplies, spares, repair and maintenance, insurance and others, accounting for approximately 85% of total expenses. Operating expenses per day are forecast based on PSL's estimation, depending on age of vessels. The forecast operating expenses are higher than the actual 2-year average operating expenses by approximately 7% - 9%. The operating expenses shall be paid 365 days/year.

Table 4-3: Forecast operating expenses

| Vessel type | Operating expenses (USD/day/vessel) |
|---|---|
| New Build Vessels | 3,650 in 1st year , increases 1.5% p.a. |
| Second-Hand Vessels | 4,055 in 1st year after acquisition, increases 1.5% p.a. |

7) Dry docking and special survey expenses

The first dry docking and special survey are forecast to be performed when the vessels reach an age of three years and five years, respectively. From here on dry dockings and special surveys will be performed every five years. The following forecast dry docking and special survey expenses are based on PSL's conservative estimation. Such forecast expenses are in line with the average actual expenses in the past two years.

8) Supervision cost

Under the case of building New Build Vessels, the Company shall pay supervision cost of USD 225,000/vessel to supervise and survey the construction of the vessels. The supervision cost is forecast to be paid during the building process.

Table 4-4: Forecast dry docking and special survey expenses

| Vessel type | Dry docking expenses (USD/time) | | Special survey expenses (USD/time) | |
|---|---|---|---|---|
| | 1st time | 2nd time onwards | 1st time | 2nd time onwards |
| New Build Vessels | 400,000 | Increases 100,000/time | 600,000 | Increases 100,000/time |
| Second-Hand Vessels | 600,000 | Increases 100,000/time | 700,000 | Increases 100,000/time |

9) Discount rate

In this exercise, weighted average cost of capital ("WACC") is the discount rate applied to the projected cash flows of the New Build Vessels and the Second-Hand Vessels. WACC representing the total cost of financing to the vessels is calculated as follows:

$$WACC = [D/(D+E) \times K_D \times (1 - T)] + [E/(D+E) \times K_E]$$

Whereas:

D — The Company's interest bearing debt based on the Company's year-end consolidated financial statements 2013, THB 9,272.76 million

E — The Company's shareholders' equity based on the Company's year-end consolidated financial statements 2013, THB 15,631.03 million

Although the proportion of the Company's interest bearing debt and shareholder equity shall be affected by the Transaction, especially when the Company expect use a large amount of debt financing. The Company's 14-year average debt to equity ratio is 0.6 time (2000 – 2013). As this forecast is prepared in long-term period – from entering into shipbuilding or second-hand vessel purchase contracts to sale of scrap – and shipping business is cyclical, the IFA views that the current proportion of debt and shareholder's equity is able to reflect the Company's long-term financial structure.

T — Corporate income tax rate. However, incomes from time charter and voyage charter are exempt from tax under Thailand's Notification of the Director-General of Revenue on Income Tax No. 72 (Computation of Net Profit of International Maritime Business) and under Section 13A and Section 13F of the Singapore Income Tax Act.

$K_D$ — Cost of debt based on the Company's effective interest 2013, approximately 5.00%

$K_E$ — Cost of equity calculated with the Capital Asset Pricing Model ("CAPM")

$K_E$ is calculated with CAPM as follows:

$$K_E = R_F + \beta \times (R_M - R_F)$$

Whereas:

| | |
|---|---|
| $R_F$ | Risk free rate of return based on 25-year Thai Government bond's yield as of 28 February 2014, 4.33% |
| Beta (β) | Beta (β) reflects the systematic risk. It is calculated as the covariance of the asset with the market portfolio divided by the variance in market portfolio. PSL's weekly two-year Beta as of 28 February 2014 is 1.277 (Source: Bloomberg). |
| $R_M$ | Market return is calculated from 25-year total market return on SET index as of 28 February 2014 (Source: www.set .or.th), 12.81% |

Based on the assumptions on discount rate above, the calculated WACC is 11.37%.

## Table 4-5: Forecast cash flow for the New Build Vessels

| USD million | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 | Y7 | Y8 | Y9 | Y10 | Y11 | Y12 | Y13 | Y14 | Y15 | Y16 | Y17 | Y18 | Y19 | Y20 | Y21 | Y22 | Y23 | Y24 | Y25 | Y26 | Y27 | Y28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Charter income | - | 17.91 | 67.04 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 69.71 | 51.80 | 2.66 |
| Operating expense | - | (4.11) | (15.44) | (16.28) | (16.53) | (16.77) | (17.03) | (17.28) | (17.54) | (17.80) | (18.07) | (18.34) | (18.62) | (18.90) | (19.18) | (19.47) | (19.76) | (20.06) | (20.36) | (20.66) | (20.97) | (21.29) | (21.61) | (21.93) | (22.26) | (22.59) | (16.97) | (0.87) |
| Dry docking and special survey expenses | - | - | - | - | (3.60) | (1.20) | (5.40) | (1.80) | - | (4.50) | (1.50) | (6.30) | (2.10) | - | (5.40) | (1.80) | (7.20) | (2.40) | - | (6.30) | (2.10) | (8.10) | (2.70) | - | (7.20) | (2.40) | - | - |
| Shipbuilding price and supervision costs | (72.25) | (209.85) | (54.41) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sales of scrap | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 43.20 | 14.40 |
| Net cash flow | (72.25) | (196.04) | (2.80) | 53.42 | 49.58 | 51.73 | 47.28 | 50.63 | 52.17 | 47.40 | 50.14 | 45.07 | 48.99 | 50.81 | 45.13 | 48.44 | 42.75 | 47.25 | 49.35 | 42.74 | 46.63 | 40.32 | 45.40 | 47.78 | 40.25 | 44.71 | 78.03 | 16.19 |
| Discount rate | 11.37% | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NPV | 67.87 | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Note: Year 28 (Y28) has 2 months

## Table 4-6: Forecast cash flow for the Second-Hand Vessels

| USD million | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 | Y7 | Y8 | Y9 | Y10 | Y11 | Y12 | Y13 | Y14 | Y15 | Y16 | Y17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Charter income | 41.93 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 | 55.90 |
| Operating expense | (13.32) | (18.03) | (18.30) | (18.57) | (18.85) | (19.14) | (19.42) | (19.71) | (20.01) | (20.31) | (20.61) | (20.92) | (21.24) | (21.56) | (21.88) | (22.21) | (22.54) |
| Dry docking and special survey expenses | - | (8.40) | - | - | (7.20) | - | (9.60) | - | - | (8.40) | - | (10.80) | - | - | (9.60) | - | - |
| Second-hand vessel prices | (268.80) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sales of scrap | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 57.60 |
| Net cash flow | (240.20) | 29.47 | 37.60 | 37.33 | 29.85 | 36.77 | 26.88 | 36.19 | 35.89 | 27.19 | 35.29 | 24.18 | 34.66 | 34.35 | 24.42 | 33.69 | 90.96 |
| Discount rate | 11.37% | | | | | | | | | | | | | | | | |
| NPV | 0.45 | | | | | | | | | | | | | | | | |

In this valuation, the net cash flows are discounted monthly. Based on the key assumptions above, the total NPV of 12 New Build Vessels and the 12 comparable Second-Hand Vessels under the base case are as follows:

Table 4-7: NPV of New Build Vessels and Second-Hand Vessels

| Vessel type | Total NPV (USD million) | Average NPV per vessel (USD million/vessel) |
|---|---|---|
| New Build Vessels | 67.87 | 5.66 |
| Second-Hand Vessels | 0.45 | 0.04 |

Under the base case, the total NPV of the New Build Vessels (USD 67.87 million) is positive, and higher than that of the Second-Hand Vessels (USD 0.45 million). Hence, the New Build Vessels yield better return in the current situation.

The IFA also performed sensitivity analysis by adjusting key assumptions, including time charter rates and discount rates, which significantly affect the NPVs of the New Build Vessels and the Second-Hand Vessels. In this analysis, the time charter rates for both types of vessels are adjusted by +/- 5.00%, and the discount rate is adjusted by +/- 0.50%.

Table 4-8: Sensitivity analysis – Total NPV of New Build Vessels

Unit: USD million

| | | Time charter rate (USD/day/vessel) | | | | |
|---|---|---|---|---|---|---|
| | | 15,767 | 16,182 | 16,597 | 17,012 | 17,427 |
| Discount rate | 10.87% | 55.22 | 68.15 | 81.09 | 94.03 | 106.97 |
| | 11.12% | 49.03 | 61.69 | 74.36 | 87.03 | 99.69 |
| | 11.37% | 43.06 | 55.47 | 67.87 | 80.27 | 92.68 |
| | 11.62% | 37.31 | 49.46 | 61.61 | 73.76 | 85.91 |
| | 11.87% | 31.76 | 43.67 | 55.57 | 67.47 | 79.37 |

Table 4-9: Sensitivity analysis – Total NPV of Second-Hand Vessels

Unit: USD million

| | | Time charter rate (USD/day/vessel) | | | | |
|---|---|---|---|---|---|---|
| | | 12,645 | 12,977 | 13,310 | 13,643 | 13,976 |
| Discount rate | 10.87% | (13.81) | (3.00) | 7.80 | 18.61 | 29.42 |
| | 11.12% | (17.23) | (6.58) | 4.08 | 14.73 | 25.39 |
| | 11.37% | (20.56) | (10.06) | 0.45 | 10.95 | 21.46 |
| | 11.62% | (23.81) | (13.45) | (3.09) | 7.27 | 17.63 |
| | 11.87% | (26.97) | (16.75) | (6.54) | 3.68 | 13.90 |

Based on the sensitivity analysis above, the total NPV of the New Build Vessels and the Second-Hand Vessels are in the following ranges:

**New Build Vessels:** USD 31.76 – 106.97 million

**Second-Hand Vessels:** USD (26.97) – 29.42 million

In addition to financial aspects, the IFA summarises the pros and cons of the New Build Vessels and the Second-Hand Vessels in the table below.

Table 4-10: Comparison of the New Build Vessels and the Second-Hand Vessels

| Aspect | New Build Vessels | Second-Hand Vessels |
|---|---|---|
| Design and specifications | Pro | Con |
| Technology | Pro | Con |
| Reduced average age | Pro | Depend on vessels' ages |
| Delivery risk | Con | Pro |

In summary, the pros of the New Build Vessels are as follows:

- The Company can customise the design and specifications of the New Build Vessels as per requirements and demand of the current market.
- The New Build Vessels are equipped with more advanced technology which allows the Company to charge a higher charter rate to the customers or save operating expenses.
- The New Build Vessels will reduce the average age of the Company's fleet, and in turn increase the efficiency of the fleet.

The con of the New Build Vessels is the delivery risk and the gestation period while the New Build Vessels are being built. However, according to the shipbuilding contracts, the contract prices will be deducted if the New Build Vessels are delivered later than the agreed period.

### 4.3. Conclusion of valuation results

The valuation results from appraisal value and NPV approach can be summarised as follows:

Table 4-11: Valuation results summary

| Valuation approach | Appraiser / Valuer | Aggregate asset value/<br>Total NPV | Difference from<br>aggregate contract price |
|---|---|---|---|
| Appraisal value approach | Hartland<br><br>Fearnleys | USD 348.00 million<br><br>USD 348.00 million | + USD 14.20 million (4.25%)<br>+ USD 14.20 million (4.25%) |
| NPV approach | GTSL | Total NPV of New Build Vessels<br>Base case: USD 67.87 million<br>Sensitivity analysis:<br>USD 31.76 – 106.97 million<br>Total NPV of Second-Hand Vessels<br>Base case: USD 0.45 million<br>Sensitivity analysis:<br>USD (26.97) – 29.42 million | |

Based on the valuation results, the contract prices of the New Build Vessels are fair and appropriate. The aggregate asset value evaluated by Hartland and Fearnleys (USD 348.00 million) is higher than the aggregate contract price (USD 333.80 million).

The total NPV of the New Build Vessels (USD 31.76 – 106.97 million) is positive and higher than the total NPV of the Second-Hand Vessels (USD (26.97) – 29.42 million). Hence, the New Build Vessels are worth investing and yield better return than the Second-Hand Vessels in the current situation. Furthermore, under the sensitivity analysis where time charter rate and discount rate are varied, the NPV of the New Build Vessels is still in a positive range. The New Build Vessels are also superior to the Second-Hand Vessels in other aspects, including design and specification, technology and modern fleet.

## 5. Conclusion of Independent Financial Adviser's opinion regarding the Asset Acquisition

The IFA has reviewed the relevant information, including conditions of the Transaction, advantages and disadvantages from entering into the Transaction, and potential risks from the Transaction. The advantages from entering the Transaction include rejuvenation and modernisation of fleet, increase in revenue and profits, increase in return on assets and return on equity, and lower weighted average cost of capital, while the disadvantage is increase in financial leverage and interest burden. The Company will also be exposed to financial risks, counter party risks, operational risks and market risks from entering into the Transaction. However, these risks are mainly inherent to the normal course of the Company's business. The IFA is of the opinion that the benefits from entering into the Transaction outweigh the disadvantages and the risks, and that the Transaction is reasonable.

With regards to the appropriateness of the Transaction price, the IFA used the net present value approach and arrived at a positive value in the range of USD 31.76 – 106.97 million for the Transaction. The IFA also compared the result to the value of an alternative option to purchase similar second-hand vessels, which resulted in a relatively lower range of values at USD (26.97) – 29.42 million. Also taking into account that the New Build Vessels appraisal performed by two industry specialists, Hartland and Fearnleys, of USD 348.00 million or USD 29.00 million per vessel is higher than the contract price of USD 333.80 million or approximately USD 27.82 million per vessel, the IFA is of an opinion that the Transaction price is fair and appropriate. The IFA also views that the terms and conditions of the Transaction are appropriate and unlikely to cause any disadvantage to the Company.

**Based on the above reasons, the IFA views that the shareholders will benefit from the Transaction and recommends that they vote in favour of the asset acquisition.**

The shareholders could consider the reasoning and the opinion of the IFA, which is based on the assumption that the information and documents received as well as the interviews of the management and related parties are true, complete and accurate. The IFA considers that the assumptions used in the preparation of the financial projection are reasonable and are based on the economic condition and data available during the study period only and that any material changes in such factors may affect the IFA's opinion. Nevertheless, the decision to approve or reject the proposed transaction rests primarily with the shareholders.

The IFA hereby certifies that the study and information analysis has been conducted with prudence under the professional standards with proper justification based on the available information and primarily for the interest of the shareholders.

Yours faithfully,

Monvalai Rachatakul
Senior Manager, Corporate Finance
Grant Thornton Services Ltd.

Julaporn Namchaisiri
Managing Director, Corporate Finance
Grant Thornton Services Ltd.

## Appendices

**Appendix 1:** Valuation certificates by Hartland

HARTLAND
SHIPPING SERVICES

# VALUATION CERTIFICATE

| | | | |
|---|---|---|---|
| | **Newbuilding ultramax bulk carrier** | | |
| Flag: | **Unknown** | | |
| Type: | **Dry bulk carrier** | | |
| Classed: | **Unknown** | | |
| Built by: | **Sainty Marine Corporation Ltd., China** | | |
| Delivery: | **2015/2016** | | |
| DWT: | **64,000 mt** | Draft: | **13.300 m** |
| Holds/Hatches: | **5/5** | | |
| Gear: | **Cranes 4 x 36 tonnes** | | |
| Main Engine: | **MAN B&W 5S60ME-C8.2** | | |
| Cubics: | **About 78,500 cbm** | LOA/Beam: | **199.90 m/32.26 m** |
| Other Characteristics: | | | |
| Estimated Value: | **US$ 29.0 million (United States Dollars Twenty Nine Million Only) per vessel** | | |

For the purpose of making this valuation:-

a) We have assumed that the above information is true and accurate in every respect.

b) The value given above is based on current market comparables as between a willing Buyer and a willing Seller

c) We have assumed that the vessel will be constructed in accordance with good commercial practice, that it will be delivered in good working order and sound seaworthy condition as regards hull and machinery as per the shipbuilding contract, specification and classification rules.

d) We have not inspected the vessel and have relied solely on the above information which has been supplied to us. This valuation is therefore not a representation of fact or of the correctness of the above information or any other information available to us and no representation or warranties as to the correctness of the information are made or implied by the giving of this valuation which is a statement of our opinion only.

e) This valuation is expressed solely to and is for the benefit solely of the person instructing us. No other party is entitled to rely upon the contents herein nor is it to be quoted from or referred to in any document or filed with any government agency or other person without the written consent of Hartland Shipping Services Limited.

f) We acknowledge that the valuation report will be presented in full and sent to shareholders of Precious Shipping PCL., Bangkok, Thailand as part of the disclosure required on the newbuildings' orders for this type of vessel.

g) Hartland Shipping Services Limited and its Directors does not hold any share in Precious Shipping PCL and or is not directly or indirectly interested in Precious Shipping PCL or its subsidies.

For and on behalf of
Hartland Shipping Services Limited

Patrick Hinds,
Director, Sale & Purchase

Mark Steans,
Director, Dry Cargo Chartering

Date: 18 March 2014

Hartland Shipping Services Limited
28 Bedford Street, Covent Garden, London, United Kingdom, WC2E 9ED
Tel: +44 20 3077 1600 Fax: +44 20 7240 9603
Email: newbuild@hartlandshipping.com consult@hartlandshipping.com
chartuk@hartlandshipping.com snpuk@hartlandshipping.com

Registered in England number 2587345
Registered Office: 28 Bedford Street, Covent Garden, London, WC2E 9ED

HARTLAND
SHIPPING SERVICES

# VALUATION CERTIFICATE

| | |
|---|---|
| | **Newbuilding ultramax bulk carrier** |
| Flag: | **Unknown** |
| Type: | **Dry bulk carrier** |
| Classed: | **Unknown** |
| Built by: | **Taizhou Sanfu Ship Engineering Co., Ltd., China** |
| Delivery: | **2015/2016** |
| DWT: | **64,000 mt** |
| Draft: | **13.300 m** |
| Holds/Hatches: | **5/5** |
| Gear: | **Cranes 4 x 36 tonnes** |
| Main Engine: | **MAN B&W 5G60ME-C9.2** |
| Cubics: | **About 78,500 cbm** |
| LOA/Beam: | **199.90 m/32.26 m** |
| Other Characteristics: | |

Estimated Value: **US$ 29.0 million (United States Dollars Twenty Nine Million Only) per vessel**

For the purpose of making this valuation:-

a) We have assumed that the above information is true and accurate in every respect.

b) The value given above is based on current market comparables as between a willing Buyer and a willing Seller

c) We have assumed that the vessel will be constructed in accordance with good commercial practice, that it will be delivered in good working order and sound seaworthy condition as regards hull and machinery as per the shipbuilding contract, specification and classification rules.

d) We have not inspected the vessel and have relied solely on the above information which has been supplied to us. This valuation is therefore not a representation of fact or of the correctness of the above information or any other information available to us and no representation or warranties as to the correctness of the information are made or implied by the giving of this valuation which is a statement of our opinion only.

e) This valuation is expressed solely to and is for the benefit solely of the person instructing us. No other party is entitled to rely upon the contents herein nor is it to be quoted from or referred to in any document or filed with any government agency or other person without the written consent of Hartland Shipping Services Limited.

f) We acknowledge that the valuation report will be presented in full and sent to shareholders of Precious Shipping PCL., Bangkok, Thailand as part of the disclosure required on the newbuildings' orders for this type of vessel.

g) Hartland Shipping Services Limited and its Directors does not hold any share in Precious Shipping PCL and or is not directly or indirectly interested in Precious Shipping PCL or its subsidies.

For and on behalf of
Hartland Shipping Services Limited

Patrick Hinds,
Director, Sale & Purchase

Mark Steans,
Director, Dry Cargo Chartering

Date: 18 March 2014

Hartland Shipping Services Limited
28 Bedford Street, Covent Garden, London, United Kingdom, WC2E 9ED
Tel: +44 20 3077 1600 Fax: +44 20 7240 9603
Email: newbuild@hartlandshipping.com consult@hartlandshipping.com
chartuk@hartlandshipping.com snpuk@hartlandshipping.com

Registered in England number 2587345
Registered Office: 28 Bedford Street, Covent Garden, London, WC2E 9ED

**Appendix 2**: Valuation certificate by Fearnleys

# Fearnleys Asia (Singapore) Pte Ltd

# CERTIFICATE OF VALUATION

**FOR:** Ms. Julaporn Namchaisiri
Managing director
Grant Thornton Services Ltd.
18th Floor Capital Tower , All Seasons Place, 87/1 Wireless Road
Bangkok 10330 ,Thailand

| Hull No. | BUILT | Delivery date (on or before) | DWT | VALUE, USD M |
|---|---|---|---|---|
| SAM14019B | Sainty Marine Corporation Ltd, China | 31-May-2015 | 64,000 | 29 |
| SAM14020B | Sainty Marine Corporation Ltd, China | 31-May-2015 | 64,000 | 29 |
| SAM14021B | Sainty Marine Corporation Ltd, China | 31-Aug-2015 | 64,000 | 29 |
| SAM14022B | Sainty Marine Corporation Ltd, China | 31-Aug-2015 | 64,000 | 29 |
| SAM14023B | Sainty Marine Corporation Ltd, China | 31-Oct-2015 | 64,000 | 29 |
| SAM14024B | Sainty Marine Corporation Ltd, China | 31-Oct-2015 | 64,000 | 29 |
| SAM14025B | Sainty Marine Corporation Ltd, China | 15-Dec-2015 | 64,000 | 29 |
| SAM14026B | Sainty Marine Corporation Ltd, China | 15-Dec-2015 | 64,000 | 29 |
| SAM14027B | Sainty Marine Corporation Ltd, China | 31-Mar-2016 | 64,000 | 29 |
| SAM14028B | Sainty Marine Corporation Ltd, China | 31-Mar-2016 | 64,000 | 29 |
| Hull nos to be assigned | Taizhou Sanfu Ship Engineering Co., Ltd., China | 30-Nov-2015 | 64,000 | 29 |
| Hull nos to be assigned | Taizhou Sanfu Ship Engineering Co., Ltd., China | 15-Mar-2016 | 64,000 | 29 |

**Fearnleys Asia (Singapore) Pte Ltd**
Co. Reg. No. 200616418N

An Astrup Fearnley company

**Visiting address:**
3 Killiney Road #04-06/07
Winsland House I
Singapore 239519

**Office numbers:**
Tel: (65) 6305 0988
Fax: (65) 6736 1714
www.fearnleys.com

# Fearnleys Asia (Singapore) Pte Ltd

This valuation is performed on "willing Seller and willing Buyer" basis and is given to the best of our knowledge and based on the sale & purchase market condition prevailing at the time mentioned subject to the vessel being in sound condition and made available for delivery fairly prompt charter free and further subject to the conditions printed on the reverse side hereof.

We acknowledge that the valuation report will be presented in full and sent to the shareholders of Precious Shipping PCL., Bangkok, Thailand as part of the disclosure required on the newbuildings' orders for this type of vessel.

Fearnleys Asia (Singapore) Pte Ltd and it's Directors does not hold any shares in Precious Shipping PCL and or is not directly or indirectly interested in Precious Shipping PCL or its subsidiaries.

Fearnleys Asia (Singapore) Pte Ltd is not interested in these transactions in any manner.

Raj Sethi

**RAJA SWAMINATHAN** FICS

Date: 18.03.2014

**Fearnleys Asia (Singapore) Pte Ltd**
Co. Reg. No. 200616418N

An Astrup Fearnley company

**Visiting address:**
3 Killiney Road #04-06/07
Winsland House I
Singapore 239519

**Office numbers:**
Tel: (65) 6305 0988
Fax: (65) 6736 1714
www.fearnleys.com

This valuation and particulars are statements of opinion and are not to be taken as representations of fact. The figures relate solely to our opinion of the market value as of the date given and should not be taken to apply to any other date.

We have neither made a physical inspection of the units/ shipyards, but assume these units

a) will be constructed in accordance with good commercial practices following the Shipbuilding contract and Classification Society rules.
b) will be delivered in good working order and sound seaworthy condition with regards to her Hull & Machinery.

The valuation is provided on the basis of unit being sold individually where more than one unit has been valued.

Any person contemplating entering a transaction or otherwise replying upon this valuation should satisfy himself by inspection of the unit or otherwise as to the correctness of the statements and assumptions which the valuation contains. No assurance can be given that the value can be sustained or are realizable in actual transactions.

This valuation is provided solely for the use of the person to whom it is addressed and no responsibility can be accepted to any other person.

**Appendix 3**: Charter rate calculation

Charter rate calculation for each vessel type is as follows.

| Charter rate | Vessel type | | | | Source and description |
|---|---|---|---|---|---|
| | Handysize | Supramax | Ultramax | Cement carrier | |
| 25-year historical time charter rate | 10,806 | 14,937 | 14,937 | - | Clarksons only collects statistics of charter rates for Handysize under the size of 28,000 – 30,000 DWT and Supramax under the size of 40,000 – 52,000 DWT. As Ultramax has just recently emerged into the market few years ago, the IFA used 25-year historical average time charter rate of Supramax instead due to its similar size. (Source: Clarksons) |
| Size adjustment | 0 – 2,026 | 190 - 475 | 1,141 | - | Charter rates are adjusted for actual DWT by interpolating 25-year historical average charter rate of larger vessels. (Source: Clarksons) |
| Fuel-saving efficiency | - | - | 3,000 | - | Ultramax has higher efficiency in fuel-saving, which will allow the Company to charge a higher charter rate. The Company forecast that the Ultramax can save USD 3,500 – 8,000 per day of fuel expense from the current vessels. Ultramax's charter rate is expected to increase by such amount as a result. Furthermore, the IFA studied and compared actual historical voyage of Supramax with simulated voyage of Ultramax, and found that Ultramax can save USD 3,000 of fuel expense per day. The IFA, therefore, reduced the forecast to USD 3,000 on a conservative basis. |
| Charter rate after adjustment for size and efficiency | 10,806 – 12,832 | 15,127 – 15,412 | 19,077 | - | |
| Discount from market rate | (1,405) – (1,668) | (1,967) – (2,004) | (2,480) | - | Charter rates are discounted at 13% from the market rate. The discount is based on actual discount of PSL's average charter rate from Clarksons' market rate in 2013. (Source: the SET Opportunity Day – 4Q2013) |
| Forecast charter rate | 9,401 – 11,164 | 13,160 – 13,408 | 16,597 | 15,000 | Charter rate of cement carriers is based on PSL's current charter agreement. |

Grant Thornton
An instinct for growth™