*Except where otherwise indicated, the statistical information and market intelligence contained in this section are based on or derived from data prepared by an Independent Third Party SSY Consultancy & Research Ltd ("SSY"). We commissioned SSY to prepare this section of this document and we have paid consulting fees to SSY. The figures that SSY has produced are based as closely as possible on published data but, due to the incomplete nature of such information, include some subjective judgements and estimates. These figures are subject to prospective revision, due to time lags in reporting of some data, and may differ from similar assessments obtained from other analysts of shipping markets. While care has been taken in the preparation of the figures provided, SSY has not undertaken any independent verification of the data obtained from published sources. Much of this information is based on estimates and should therefore be regarded as indicative only and treated with appropriate caution. SSY accepts no liability for any loss suffered in consequence of any reliance on such information and statistics.*

*We believe that the sources of statistical information and market intelligence contained in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. The information has not been independently verified by us, the Sole Sponsor, any of their respective directors, employees, agents or advisers or any other person or party involved in the Introduction and no representation is given as to its accuracy.*

## DRY BULK SHIPPING INDUSTRY OVERVIEW

In commercial shipping markets, cargoes are carried either in bulk form, within the hold of a vessel, or in non-bulk form, in standardised containers or cargo ships. The bulk shipping industry comprises the seaborne carriage of both dry bulk and liquid bulk cargoes.

Dry bulk cargoes can be further classified as major bulk cargoes or minor bulk cargoes, both of which are shipped in bulk form, although some minor bulk cargoes may alternatively be carried in non-bulk form or, if in bulk form, in vessels smaller than 10,000 dwt. The major bulk cargoes are comprised of iron ore, coal (steam and coking) and grains. The minor bulk cargoes include forest products, steel products, fertilizers, petroleum coke, bauxite, alumina, cement, other construction materials, a range of mineral ores and other agricultural products (e.g. rice, sugar or tapioca). The major bulk cargoes have historically contributed more than 50% (in terms of cargo volumes carried) of overall dry bulk cargoes shipped internationally.

Our Directors, based on their experience, understand that the dry bulk shipping industry is highly fragmented and competitive with numerous ship owners possessing different types of dry bulk vessels with varying capacities. Overall, each such ship owner accounts for only a small market share of the dry bulk shipping market.

As seen from the table below, world seaborne trade in dry bulk cargoes rose by an estimated 9.5% from 2009 volumes in 2010, growing to approximately 3.28 billion tonnes. Such growth was notably higher than the CAGR of 5.3% from 2005 to 2010. In terms of market share, iron ore (a key steel-making raw material) is the largest dry bulk commodity moved by sea, with such shipments estimated at 1.02 billion tonnes in 2010, or equivalent to approximately 31% of the total. In terms of relative importance, this was followed by coal (steam coal is primarily used to generate electricity, while coking coal is used to produce steel), which accounted for approximately 29% of the annual total, and then grain with an approximate 10% market share.

**International Seaborne Dry Bulk Trade *(million tonnes)***

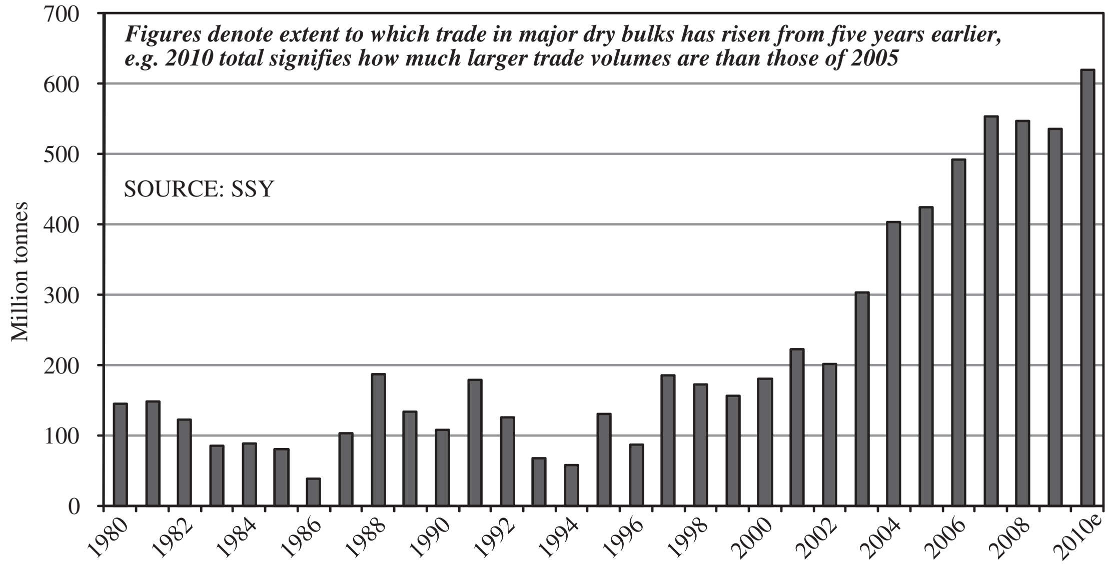
| Type of Dry Bulk | Year 2005 | Year 2006 | Year 2007 | Year 2008 | Year 2009 | Year 2010 | 2005-2010% Growth | 2005-2010 CAGR |
|---|---|---|---|---|---|---|---|---|
| **Major Bulks** | **1,666** | **1,787** | **1,904** | **1,994** | **2,094** | **2,309** | **+39%** | **+6.7%** |
| Iron Ore | 672 | 717 | 780 | 846 | 928 | 1,022 | +52% | +8.7% |
| Coal | 712 | 774 | 814 | 827 | 845 | 955 | +34% | +6.0% |
| Grains* | 282 | 296 | 310 | 321 | 321 | 332 | +18% | +3.3% |
| **Minor Bulks** | **869** | **916** | **972** | **986** | **899** | **975** | **+12%** | **+2.4%** |
| **Total** | **2,535** | **2,703** | **2,876** | **2,980** | **2,993** | **3,284** | **+30%** | **+5.3%** |

* *Wheat, coarse grains and soyabean/meal.*

## WORLD DRY BULK CARGO TRADE

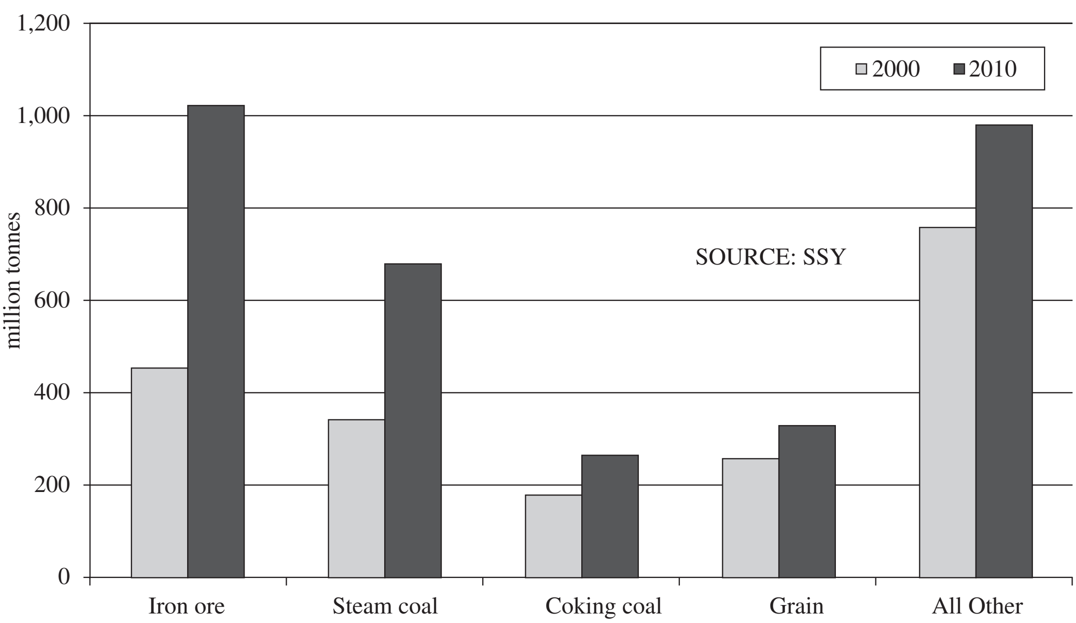
The graph below shows the five-year net growth in volumes for the major dry bulk trade between 1980 and 2010. It illustrates a re-acceleration in 2010 to over 600 million tonnes net growth compared to the figure of 2005. Much of this net growth in dry bulk trade since 2000 has led to greatly increased chartering demand and additional ship employment on long-haul iron ore and coal trades; this has been to the particular benefit of tonnage above 60,000 dwt, i.e. the Panamax (60,000 to 99,999 dwt), Capesize (100,000 to 219,999 dwt) and very large ore carrier ("VLOC") sectors (220,000 plus dwt). Fleet segments below 60,000 dwt have also benefited from overall growth in cargo movements in the past decade, as there is now a greater seaborne trade in cargoes such as steel products.

**Five-Year Net Growth in the Major Dry Bulk Cargo Trades (Iron Ore, Coal & Grain)**




As is apparent from the following graph, the largest single source of net growth in seaborne dry bulk trade between 2000 and 2010 was iron ore, with shipments more than doubling from 453 million tonnes to 1,020 million tonnes – i.e. a net gain of 567 million tonnes (a 125% increase). Steam coal was the other principal source of trade growth, with seaborne shipments of such cargoes doubling, from 344 to 688 million tonnes, in the same period. By contrast, growth in trade of other dry bulk commodities, although positive, proved more modest in absolute terms.

**Estimated Seaborne Dry Bulk Trade, 2000 & 2010**



The key factors underpinning this net growth of seaborne dry bulk trade since 2000 are set out as follows:

- Buoyant global economic conditions for much of this period, leading to heightened demand for, and international trade in, the industrial raw materials and semi-manufactured goods (e.g. processed fertilizers, steel products) that are predominantly shipped in dry bulk carriers.

- Global population growth, plus increasing economic development of newly-industrialising nations – especially in the Asia-Pacific region and South America. From some 6.03 billion at the start of 2000, world population rose by around 17.1% to an estimated 7.07 billion by end-2010,[1] entailing greater demand for agricultural goods, as well as for primary energy sources (including steam coal) and some industrial products (e.g. construction materials).

- Progressive industrialisation and urbanisation of China and, to a lesser degree, India.[2] This has led to rapidly rising primary energy consumption (mainly of fossil fuels, including steam coal), plus far higher demand for steel and other construction materials (e.g. forest products). In China's case especially, this has had to be met by greatly increased imports of iron ore and coal; for example, whereas China imported just 70.0 million tonnes of iron ore in 2000, the corresponding figure was 619.0 million tonnes in 2010. Rapid industrialisation of China has, in part, been due to economic policy, as the PRC Government has invested heavily in infrastructure (e.g. new roads, railways and port facilities) to enhance industrial development and thereby boost employment.

- Expansion of cargo availability from various major loading areas for dry bulk commodities resulting from extensive investment in new production capacity (mainly iron ore and coal mines).

- Mounting regional imbalances in commodity supply and demand, as these have necessitated greater "balancing trades" to overcome shortages of particular industrial raw materials or agricultural products in certain countries. To an extent, some of these imbalances arose for specific grades of a given cargo, rather than reflecting absolute shortages or surpluses.

- The relatively easy availability of inexpensive credit facilities – at least until late 2008 and the subsequent imposition of far tighter bank lending policies worldwide. Such access to cheap credit made it far easier for companies to invest in the additional production capacity and new processing facilities noted above.

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1 Source: world population statistics at the US Census Bureau international database (http://sasweb.ssdcensus.gov).

2 The economic development of these two countries in particular has had a huge impact on overall dry bulk commodity demand and trade because a) in 2000, per capita consumption of many commodities in China and India was very low by the standards of mature industrialised economies and b) these are the two most populous countries in the world. China's population, at around 1.34 billion and that of India (currently some 1.19 billion) mean that, together, these two nations account for around 36% of the global total as at May 2011.

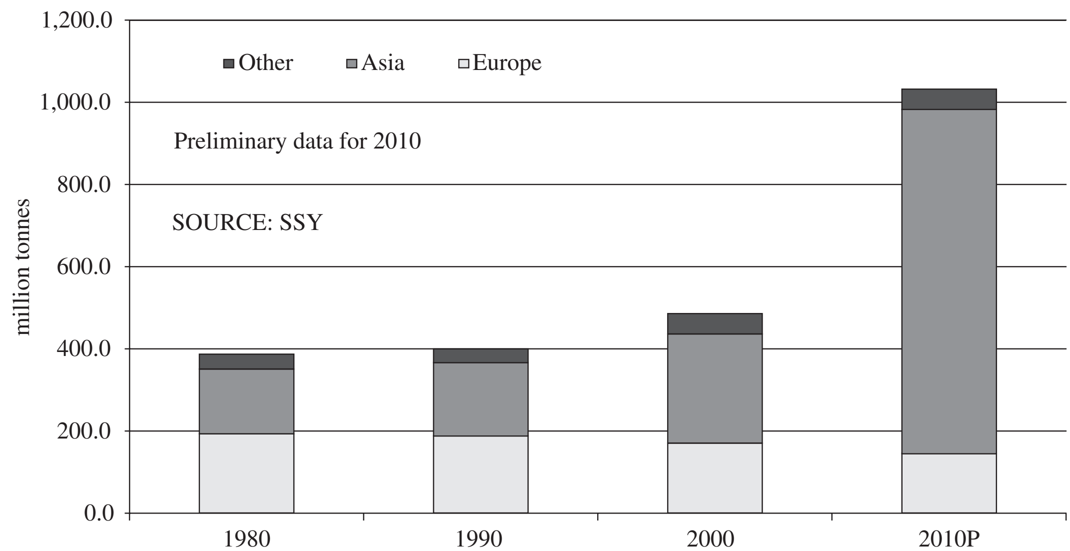
- New port developments and/or enlargement of existing port facilities. Together, these have boosted the effective handling capacity and cargo throughputs of various countries that are widely engaged in dry bulk export or import trades.[3] Such expansions have been encouraged by historically high commodity prices and logistical factors that have, at times, disrupted normal cargo loading or unloading activities in key dry bulk exporting and importing regions respectively. For example, periodic bouts have ensued of major port congestion at iron ore loading facilities in Western Australia and the coal export terminals of Australia's eastern states. Similar problems have become apparent both at Brazil's iron ore loading ports and at some large dry bulk import facilities in China. This has led to large reductions in the availability of large bulk carriers for prompt loading, so tightening tonnage supply/demand conditions, especially in the Panamax and Capesize sectors. In 2010, SSY estimates that the average waiting time to berth at East Australia's coal ports was 15.4 days, compared with just 3 days in 2002.

## ASIA DRY BULK CARGO TRADE

In the past 30 years, progressive changes have taken place in established patterns of world seaborne trade, not just for dry bulk commodities, but also for cargoes carried by other main vessel types (e.g. oil and manufactured goods). This has primarily arisen from the rapid pace of economic development in the Asia-Pacific region, which has, in turn, led to far greater imports of industrial raw materials (e.g. iron ore) and large-scale expansion of its exports of manufactured goods. In the 1970s, only Japan was a major generator of dry bulk tonnage demand within Asia, being followed in the 1980s by South Korea as that country industrialised. Yet, within the past decade, China and India have become significant importers of various commodities – a trend that is poised to continue in years ahead. By contrast, for cargoes such as iron ore, some importing regions (e.g. Europe) have seen their relative share of total trade decline in the past ten years, as evident from the graph below.

[3] Such port expansions were a factor, for example, in the growth of Australian iron ore exports from 165.2 million tonnes in 2000 to an estimated 420.9 million tonnes in 2010 – an increase of 255.7 million tonnes (+154.8%) in a 10-year period. In the same period, exports of iron ore from Brazil also rose, growing by an estimated 146.6 million tonnes (a 91.6% increase), to 306.7 million tonnes.

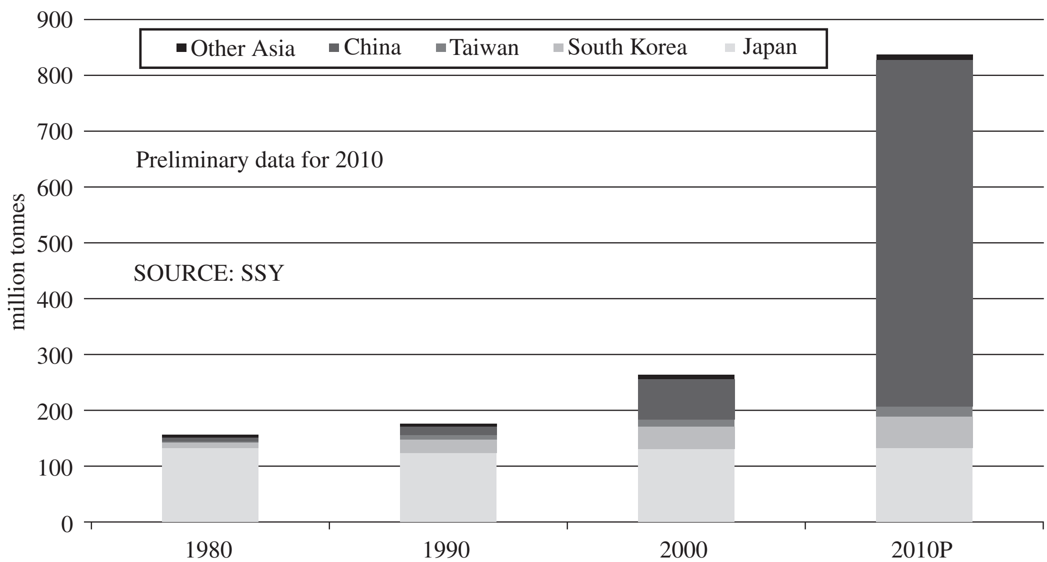
**Iron Ore Imports By Region**




As also apparent from the graph above, total iron ore imports by Asia grew only very marginally in the 1980s, amid predominantly stagnant global economic conditions for much of that decade. Yet such trades then expanded more rapidly in the 1990s, owing not only to a stronger world economy, but also some migration of heavy industry to lower-cost locations in the newly-industrialising nations. This trend gathered pace in the ten years after 2000, causing the share of world seaborne iron ore trade accounted for by Asia's imports to reach 80.8% in 2010 (based on preliminary data). This compares with a 54.5% share in 2000.

Rapid growth of iron ore trades in Asia in the past decade has been largely due to greater shipments to China especially; as noted earlier, these surged from 70.0 million tonnes in 2000 to 619 million tonnes in 2010, according to Chinese customs data. In the process, the share of world iron ore trade accounted for by imports by China alone soared from 14.4% in the former year to a provisional 60.6% ten years later. Yet, by contrast, as seen in the graph below, shipments to other Asian destinations changed to a far lesser degree. These rose from an estimated 195 million tonnes in 2000 to 218 million tonnes in 2010, i.e. growth of approximately 12%.

**Asia: Iron Ore Imports by Year**



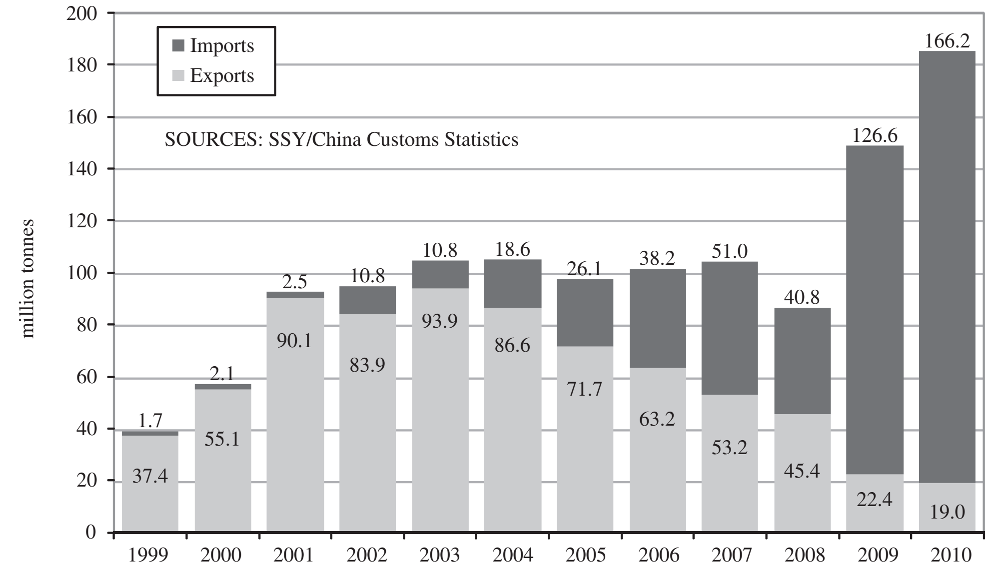

## CHINA DRY BULK TRADE

### Dry Bulk Cargoes Imported into China

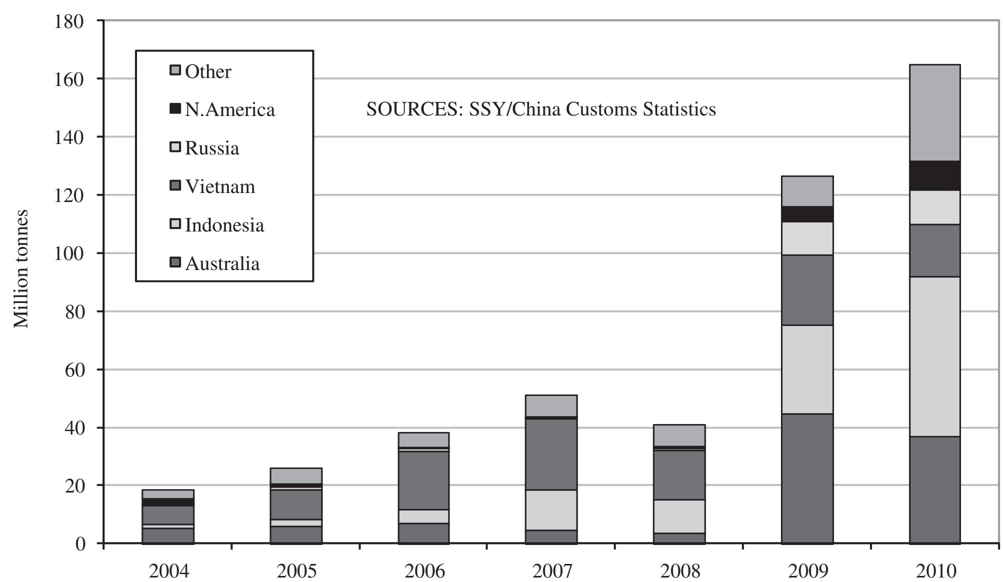
Of all the various factors that have contributed to the expansion of global seaborne dry bulk trade in the past decade, the single largest has been vast growth in China's imports. Imports of the commodities for which comprehensive and timely trade data are available soared from just 130 million tonnes in 2000 to 966 million tonnes 10 years later; this is equivalent to average growth of over 22% per annum over this period. By far the largest source of this growth has been vastly increased imports of iron ore, which have risen almost nine-fold since 2000 to account for approximately 60% of world seaborne iron ore trade in 2010. In the past two years especially, substantial increases have also taken place in China's imports of steam coal (which grew from 34 million tonnes in 2008 to 119 million tonnes in 2010) and soyabeans (which rose from 37 million tonnes in 2008 to 55 million tonnes in 2010).

Although, in absolute terms, China's imports of iron ore have increased more rapidly in recent years than those of any other major commodity shipped in bulk form, growth of China's coal imports has also been significant. As recently as 2000, such shipments to China accounted for only a miniscule proportion of global coal trade. Then, the country imported just 2.1 million tonnes of coal (steam and coking). Yet rapid industrialisation has subsequently led to a surge in China's demand for imported coal (both for electricity generation and use in steel production), despite China's status as the world's largest coal producer. Volumes received in 2010 were 166.2 million tonnes, according to customs data, comprising 119.0 million tonnes of steam coal (including anthracite) and 47.3 million tonnes of coking coal. One reason for the huge increases in China's imports in recent years has been the high cost associated with transporting domestically-mined coal long distances by land to some parts of the country that are far from where it is produced. Such locations can, in many cases, purchase foreign coal that is shipped to nearby import facilities at lower delivered prices than those at which domestic supplies could be acquired.

**China's Coal Imports & Exports**




**China: Total Coal Imports by Source**



**China: Coal Imports by Source**

| Year: | Australia | Indonesia | Vietnam | Russia | N.America | Other | Total |
|---|---|---|---|---|---|---|---|
| 2004 | 5.4 | 1.3 | 6.2 | 0.6 | 1.8 | 3.3 | 18.6 |
| 2005 | 5.9 | 2.4 | 10.2 | 0.9 | 1.2 | 5.5 | 26.1 |
| 2006 | 6.9 | 4.9 | 20.1 | 1.0 | 0.2 | 5.1 | 38.2 |
| 2007 | 4.5 | 14.0 | 24.6 | 0.3 | 0.2 | 7.4 | 51.0 |
| 2008 | 3.5 | 11.6 | 16.9 | 0.8 | 0.6 | 7.6 | 41.0 |
| 2009 | 44.6 | 30.5 | 24.1 | 11.8 | 4.9 | 10.7 | 126.6 |
| 2010 | 37.0 | 56.3 | 18.0 | 11.6 | 10.0 | 33.2 | 166.2 |

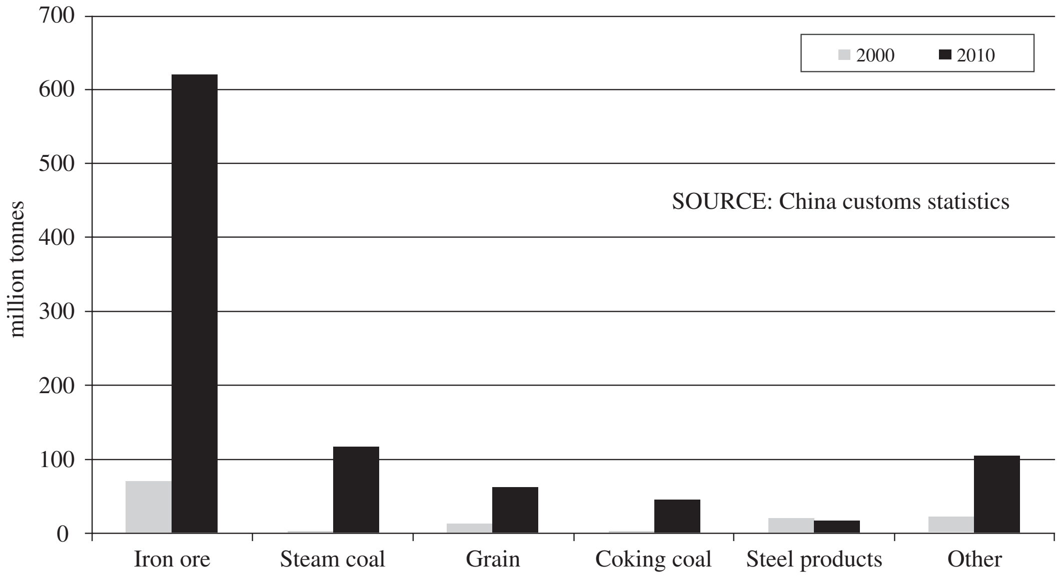
*Figures in million tonnes.* *SOURCES: SSY/China Customs Statistics*

In terms of shipping demand, this sharp surge in China's coal imports has had a positive effect on dry bulk carrier employment. Not only has there been a 43.4 million tonnes (+374%) jump in imports from Indonesia in the last two years, to 56.3 million tonnes in 2010, but China has also forced to import growing volumes of steam and coking coal from longer haul suppliers, so adding to tonne-mile employment - especially for Panamax and Capesize tonnage. For example, from just 3.5 million tonnes in 2005, China's total imports of Australian coal (steam and coking) surged to 37.0 million tonnes two years later. The past year has also seen the emergence of a new Capesize trade, as China imported Colombian coal for the first time.

China's heightened demand for coal has had a further, indirect, positive impact on bulk carrier demand; this has been because, by leading to lower coal exports from China (as greater volumes of domestically-produced supplies have been diverted to the home market), this has forced those countries that previously purchased Chinese coal (e.g. Japan and South Korea) to buy from other producers instead. Given the limited availability of additional supplies from short-haul sources, this has similarly boosted longer-haul shipments into the Far East Asia region from such producers as Australia. For example, in 2003 Japan imported 30.7 million tonnes of Chinese coal (coking and steam), with this declining to just 6.4 million tonnes by 2010. In the same period, Japanese imports of coal from Australia grew from 94.4 million tonnes to 117.5 million tonnes.

Chinese import growth moderated in 2010 after the dramatic iron ore-led increase in 2009, when a record expansion in Chinese import demand offset a collapse in import requirements by the mature industrialised economies. Chinese growth in 2009 was boosted by a stimulus package introduced by the national government that promoted fresh investment in infrastructure plus increased import substitution of key raw materials. Although China's annual iron ore imports slipped in 2010, this was at least partly due to increased competition for cargoes from the recovering steel industries of Japan and Europe, and by the final quarter of 2010 China's iron ore imports were again showing positive year-on-year growth.

**China: Dry Bulk Imports by Type, 2000 & 2010**




**Chinese Dry Bulk Imports by Main Cargo Category** ***(Million Tonnes)***

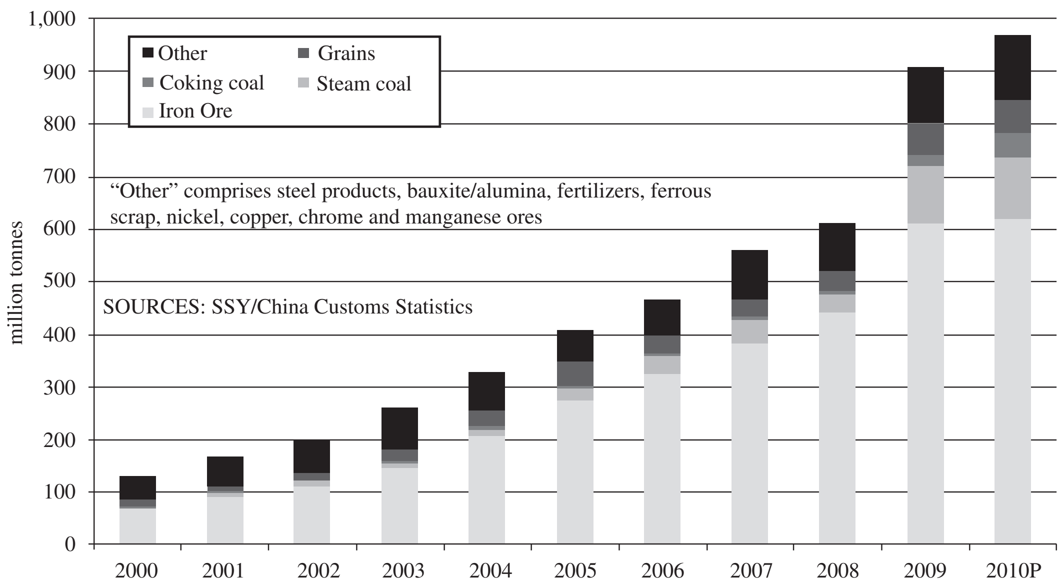
| Main Cargo Category | Year 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Iron Ore | 70 | 275 | 326 | 384 | 444 | 628 | 619 |
| Steam Coal | 2 | 19 | 34 | 45 | 34 | 92 | 119 |
| Coking Coal | 1 | 7 | 5 | 6 | 7 | 35 | 47 |
| Grains (excl. soya) | 3 | 6 | 4 | 2 | 2 | 6 | 7 |
| Soya (beans & meal) | 10 | 27 | 28 | 31 | 37 | 43 | 55 |
| Steel Products | 21 | 27 | 19 | 17 | 16 | 22 | 17 |
| Fertiliser | 12 | 14 | 11 | 12 | 6 | 4 | 7 |
| Other Ores/Scrap* | 11 | 32 | 39 | 65 | 66 | 78 | 95 |
| **Total of above** | **130** | **407** | **466** | **562** | **612** | **908** | **966** |

* *Alumina, bauxite, manganese ore, copper ore, chrome ore, nickel ore and ferrous scrap.*

*Source: Chinese Customs Statistics Monthly*

However, this table understates the contribution made by Chinese trade to ship demand due to the omission of domestic seaborne trade and, in particular, coal. Coastal coal movements from the mining areas of the North to the coal-fired power stations of South East China have also generated extra vessel demand. Data for the country's major coal ports indicate that this domestic trade totalled over 500 million tonnes in 2010, compared with approximately 300 million tonnes in 2005.

**China: Annual Dry Bulk Imports by Cargo Type**




Reasons for the rapid expansion of China's dry bulk imports since 2000 have included:

- Changes in economic and political policy, in particular the forging of closer links with the outside world. This has included the promotion of trade with such countries as Venezuela and Brazil, which have become key suppliers of such commodities as iron ore to the Chinese economy.

- Massive growth in the country's industrial sector, partly via extensive investment in new production capacity (e.g. power stations, factories and blast furnaces). For example, China's steel output grew almost four-fold between 2000 and 2010, increasing from 128.5 million tonnes to an estimated 626.5 million tonnes.

- Large-scale migration of much of the Chinese population from rural areas to urban locations; this has necessitated extensive investment in infrastructure (especially roads and rail), as well as construction of additional housing, office buildings, power stations and industrial plants.

- Rising standards of living, which have enabled a higher portion of the Chinese population to buy manufactured goods produced by the nation's industrial sector, using imported fossil fuels and steel-making raw materials. These have also enabled more Chinese citizens to consume processed foods, partly produced from imported soya.

- Import substitution with, for example, China's reliance on domestically produced iron ore being reduced in favour of higher quality imported ores.

### Dry Bulk Cargoes Exported from China

Apart from its dramatically increased imports of dry bulk commodities in the past decade, China is also a source of export cargoes that generates tonnage demand – mainly for dry bulk vessels of up to Panamax size. This is despite the enormous growth that has taken place in the country's domestic demand for various industrial raw materials and fossil fuels. The sheer size of China is such that, at times, it is more economically efficient to import certain commodities from external sources and to export domestically-produced supplies of the same product, rather than incur the cost of transporting such cargoes large distances by land. Thus, despite importing an estimated 166 million tonnes of coal (steam and coking) in 2010, the country also exported some 19 million tonnes to overseas markets. As the table below illustrates, the past five years have witnessed a decline in China's annual coal exports, due primarily to the expansion of domestic markets. As noted earlier, however, this has been largely a positive development for dry bulk ship demand as previous importers of Chinese coal in Japan and South Korea have been forced to source alternative supplies from longer-haul sources.

Other notable dry bulk exports shipped from China in recent years have included steel products and cement. Here, too, volumes in 2010 were below their previous peaks.

**Chinese Dry Bulk Exports by Main Cargo Category** ***(Million Tonnes)***

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| **Main Cargo Category** | **2000** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Steam Coal | 14 | 66 | 59 | 51 | 42 | 22 | 18 |
| Coking Coal | 7 | 5 | 4 | 3 | 4 | 1 | 1 |
| Coke | 15 | 13 | 15 | 15 | 12 | 1 | 3 |
| Steel Products | 11 | 28 | 52 | 69 | 61 | 25 | 43 |
| Cement | 6 | 22 | 36 | 33 | 26 | 16 | 16 |
| **Total of Above** | **53** | **134** | **166** | **171** | **145** | **65** | **81** |

*Source: Chinese Customs Statistics Monthly*

## OVERALL TRENDS IN DRY BULK CARRIER SUPPLY

### Dry Bulk Carrier Fleet

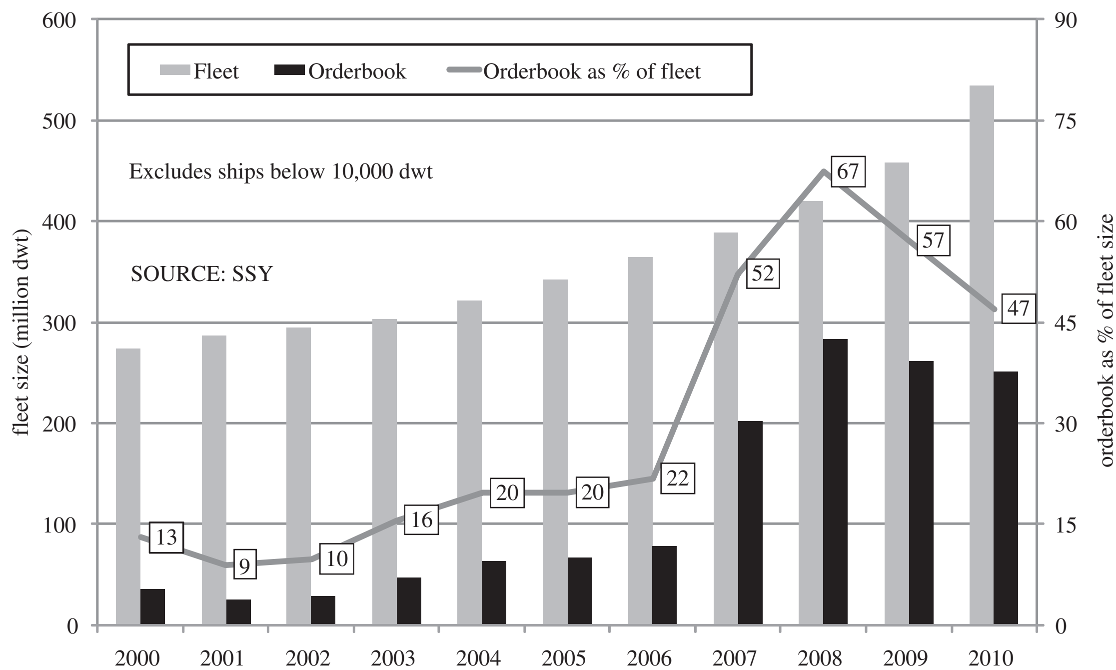
Predominantly firm tonnage demand for dry bulk carriers for most of the period since 2003 has led in recent years to large-scale ordering of new tonnage, below-average volumes of fleet removals (via scrapping, conversion to other ship types or casualty) and hence progressive net expansion of the fleet. From 294.3 million dwt at end-2002, dry bulk carrier supply (excluding vessels below 10,000 dwt which, generally, do not operate on deep-sea international trades) grew to an estimated 534.5 million dwt by end-2010; this represented expansion of 81.6%, or an average of more than 7.7% p.a. over the eight-year period.

**Dry Bulk Carrier Fleet: Size & Age Analysis as at end-December 2010**

| | | Existing fleet | | | Orderbook | | |
|---|---|---|---|---|---|---|---|
| Segment | Size range (dwt): | No. of Ships | Mdwt | Average age (years) | No. of Ships | Mdwt | % of fleet dwt |
| Handysize | 10,000-39,999 | 2,895 | 79.5 | 17 | 718 | 23.0 | 28.9 |
| Handymax/ Supramax | 40,000-59,999 | 2,136 | 107.7 | 10 | 744 | 41.8 | 38.8 |
| Panamax | 60,000-99,999 | 1,815 | 136.4 | 11 | 868 | 70.4 | 51.6 |
| Capesize | 100,000-219,999 | 1,060 | 180.5 | 9 | 505 | 86.4 | 47.9 |
| VLOC | 220,000+ | 112 | 30.4 | 12 | 91 | 29.3 | 96.1 |
| **Total** | | **8,018** | **534.5** | **13** | **2,926** | **250.8** | **46.9** |

*Source:* *SSY*

**Development of Dry Bulk Carrier Fleet & Orderbook**
*(end-year figures)*

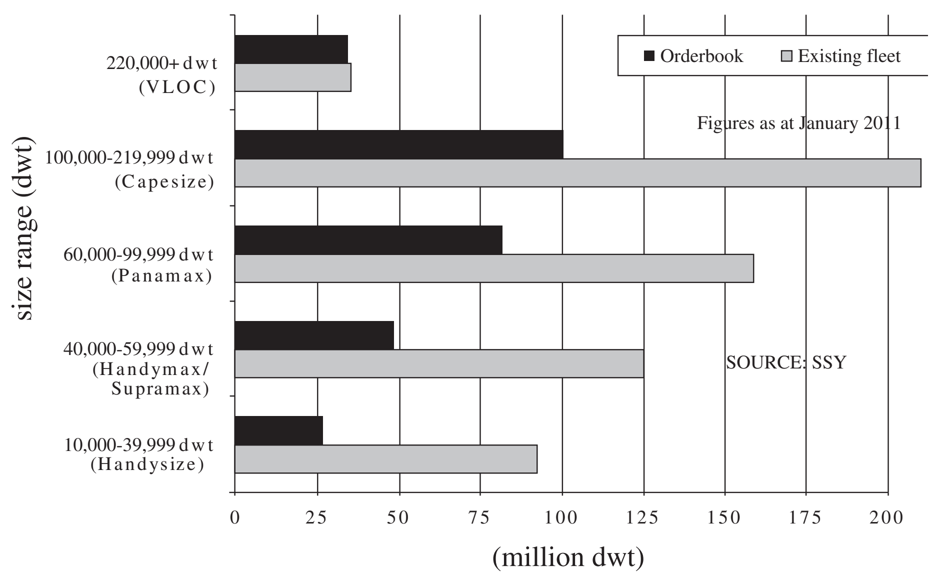



Apart from increased deliveries of newbuildings, growth of tonnage supply has been compounded by the arrival within the fleet of many ships that had undergone conversion from oil tankers to dry bulk carriers. This followed from international regulations that required oil tankers to be of double-hull design and prohibited the use of single-hulled tankers on most major trade routes. For most of these ships, compliance with such rules was due by end-2010. Provisional SSY fleet data indicate that, in the years 2008 to 2010 inclusive, 111 former tankers totalling 19.1 million dwt underwent conversion and duly entered the dry bulk fleet.[4] With only limited numbers of single-hull vessels remaining in the tanker fleet, conversions into the dry bulk sector are likely to moderate significantly from the levels seen in 2008 to 2010 inclusive.

At end-2010, the dry bulk carrier fleet (excluding ships below 10,000 dwt) comprised 8,018 vessels of 534.5 million dwt. At 2,926 units totalling 250.8 million dwt, tonnage on order equated in cargo-carrying terms to 46.9% of existing ship supply. This was far higher than the long-term historical average, reflecting the very concerted contracting of dry bulk carriers that had taken place in the two years before the global recession set in, and the renewed ordering activity involving this ship type in 2010. The latter was largely in response to the reductions that had taken place in newbuilding prices from their pre-recession peaks of 2008.[5]

Although the orderbook equated to approximately 47% of the existing fleet in tonnage terms, this overall figure conceals large differences in the relative volumes of tonnage on order in respective size segments of the fleet. As apparent from the graph below, a very high volume of VLOC tonnage was on order at end-2010, with this equating to 96.1% of tonnage already in existence at that time. By contrast, for Handysizes, the end-2010 orderbook was equivalent to only 28.9% of the existing fleet in deadweight terms. Furthermore, as will be explained later, the average age profile of Handysizes is far older than that of other size segments of the bulk carrier fleet. This implies that future deliveries to that size sector may be offset in the next few years, at least to some degree, by noteworthy removals of older vessels via demolition.

**Dry Bulk Carriers: Existing Fleet & Orderbook by Size Range**




4 This compared with the delivery into service of 1,833 dry bulk carrier newbuildings of 145.6 million dwt in the same period.

5 For example, in September 2008, just before the global recession set in, the typical contract price of a Panamax bulk carrier ordered from Japanese shipbuilders was estimated to be around US$56 million; within 15 months, the price had fallen to some US$34 million – a decline of 39% - and scarcely rallied from this level throughout 2010.

A large orderbook, relative to existing fleet size, would imply substantial volumes of new ship deliveries in years ahead and, unless accompanied by significant scrapping of older units, notable net growth in tonnage supply. However, since the international credit crisis of 2008 and the ensuing world economic downturn, the situation regarding future vessel supply has become less certain. This has been due primarily to two factors, namely:

- The cancellation of many newbuilding contracts that had been placed before the recession began. SSY data indicate that, from 1 October 2008 to end 2010, orders for 649 bulk carriers of 52.8 million dwt (excluding ships below 10,000 dwt) were cancelled.[6]

- Noteworthy slippage of newbuilding deliveries from reported delivery dates.[7] For example, at 1 January 2010, the orderbook indicated that 117.4 million dwt of new bulk carriers were due for delivery in 2010; SSY's preliminary estimate for actual deliveries last year put the total at 78.5 million dwt. This would imply that 38.9 million dwt of dry bulk tonnage that was due to have joined the fleet during 2010 failed to do so, which equates to a non-delivery rate of 33%. Large-scale slippage from reported delivery dates had also taken place in 2009 and can be partly explained by the large number of dry bulk carriers that have been ordered in recent years from shipyards that are recent entrants to the newbuilding sector. Many of these have struggled to fulfil their construction commitments, due to such factors as shortages of suitably qualified labour, problems obtaining credit and/or delays to the completion of their shipbuilding facilities. To an extent, slippage has also been partly due to pressure on supply of key equipment used in building new vessels (e.g. ships' engines); this has been the result of exceptionally high volumes of world shipbuilding activity involving all main commercial vessel types.

Extensive slippage in new ship completions has meant that, despite being extremely high by historical standards, new bulk carrier deliveries in both 2009 and 2010 were far lower than had originally been scheduled. Accordingly, net fleet growth was considerably smaller than if such slippage and/or cancellation of some ships on order had not taken place. Current indications are that slippage will remain a feature of global shipbuilding markets in the next few years, implying that actual additions to the dry bulk fleet could fall well short of the volumes suggested by the end-2010 orderbook.

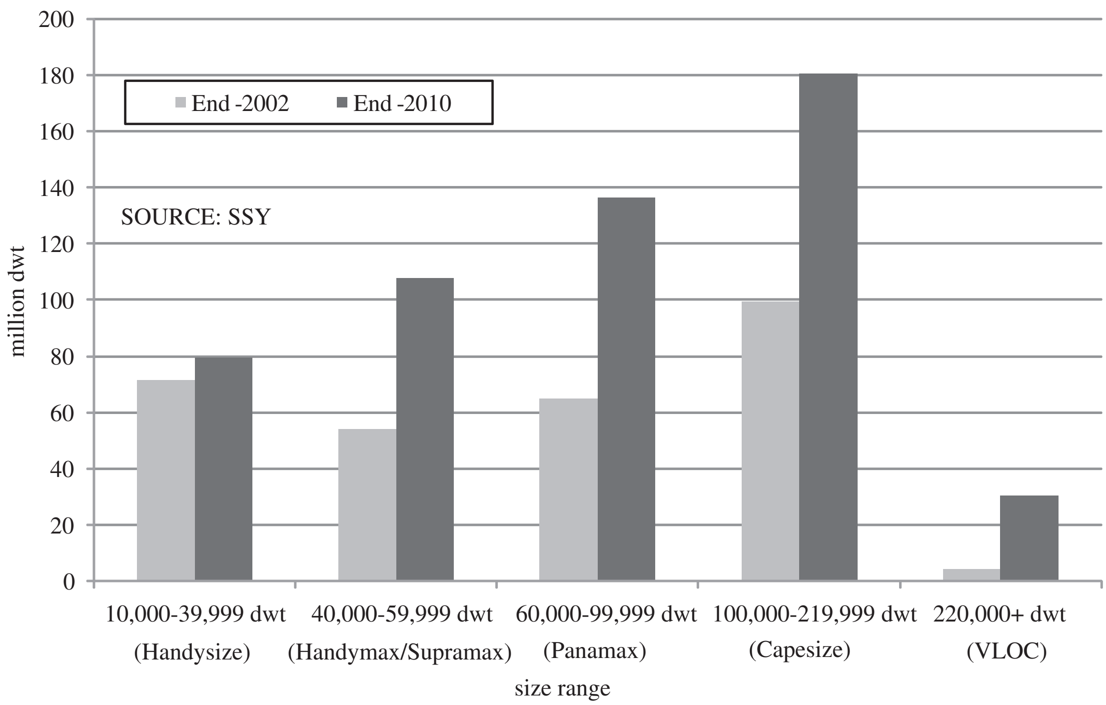
6 Of these cancelled contracts, 232 were for Handysize units, 155 for Handymaxes/Supramaxes, 114 for Panamaxes, 135 for Capesizes and 13 for VLOCs.

7 Slippage is defined as the difference between a vessel's expected delivery date (as reported at the time that a newbuilding order is placed) and the actual date that the ship is handed over to her owners. Such a difference can arise for a variety of reasons, ranging from a yard's failure to fulfil its intended completion schedule to the deliberate renegotiation by a shipowner of a later handover date from the shipyard at which she is built, in response to prevailing freight market conditions. On a collective basis, slippage in the course of a calendar year equates to the difference between the volume of tonnage due to have been delivered (based on the portion of the 1 January orderbook scheduled to have been delivered that year) and what actually enters service.

**Fleet Size/Age Structure**

Dry bulk carrier supply growth in recent years has been centred on the Capesize, Panamax and Handymax/Supramax sectors; these fleets increased in net terms by 81.1 million dwt, 71.4 million dwt and 53.6 million dwt respectively between the end of 2002 and 2010. By comparison, expansion of the VLOC and Handysize fleets has been far more modest in absolute terms, as seen in the graph below.

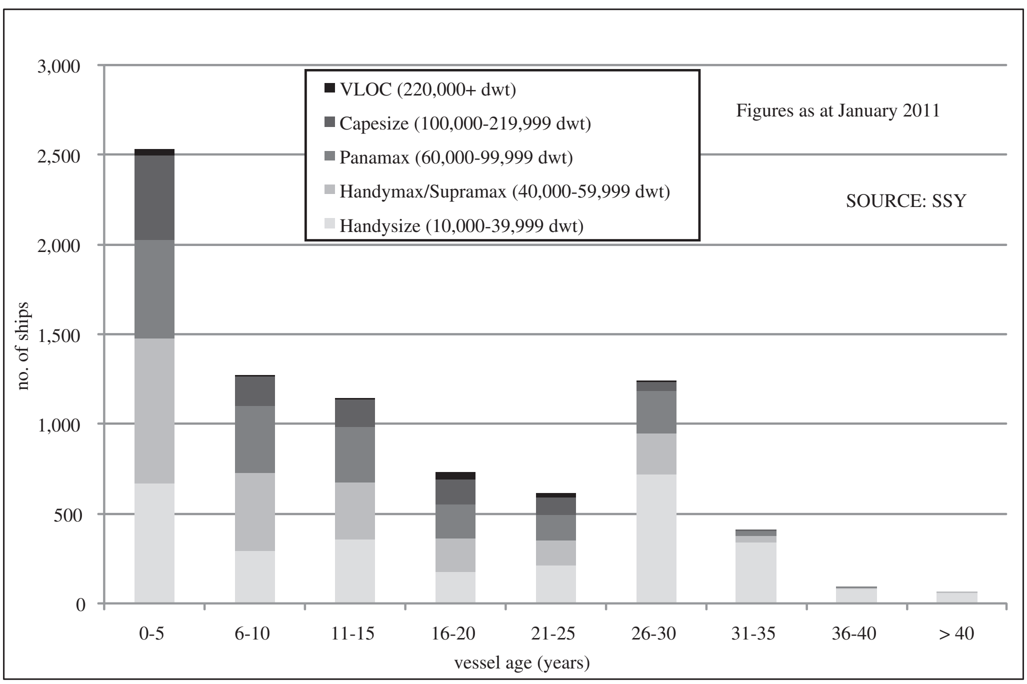
**Dry Bulk Carrier Fleet by Size Range**




As a result, the share of the total dry bulk carrier fleet, in dwt terms, accounted for by the 10,000 to 39,999 dwt Handysize sector declined to 14.9% at the end of 2010 from 24.4% at the end of 2002. Nevertheless, in terms of vessel numbers, the Handysize fleet remains the largest, with 2,895 ships. When combined with the Handymax/Supramax segment (of 40,000 to 59,999 dwt), the sub-Panamax sizes equate to almost 63% of all vessels in the dry bulk carrier fleet. This is despite a long-term trend towards larger average ship sizes over time – itself a function of the growth in long-haul dry bulk cargo movements, which favour use of large vessels, due to the economies of scale that these can offer. The sub-60,000 dwt ships are usually equipped with cargo-handling gear (cranes or derricks) and are widely used on routes to and from draft-restricted ports that cannot accommodate larger vessels. Handysizes are used to transport a range of "minor bulks" with their cargo-handling gear making them well suited to deployment to trades involving industrialising economies with less developed port handling facilities.

Extensive construction of new dry bulk carriers since around 2004 means that the fleet now contains many vessels that are very modern. The age distribution of the fleet is not uniform across all ship size groups, however, with a far higher concentration of older units in the Handysize sector. At end-2010, some 41% of the ships in this size range were above 25 years' age; the comparable proportions for other size groups were 13% for Handymax/Supramax units, 15% for Panamaxes, 6% for Capesizes and just 1% for VLOCs.

**Dry Bulk Carrier Fleet by Size & Age Group**



## DRY BULK CARRIER FREIGHT MARKET DEVELOPMENTS

### Baltic Dry Index

The Baltic Dry Index (the "BDI" – previously called the Baltic Freight Index, or "BFI") is the most widely used indicator of overall conditions in dry bulk shipping markets; it has been produced on a daily basis by the Baltic Exchange since September 1986.[8] Prior to the 2008 international credit crisis and the ensuing onset of world recession, the Index had reached new record levels, before undergoing steep declines in the fourth quarter of that year. For much of 2009, the Baltic Dry Index continued to trade at levels well below those that had prevailed before the global downturn, although some rally ensued from the severely depressed levels at which it had ended 2008. This partial recovery reflected a gradual pick up in cargo demand and volumes of seaborne dry bulk trade, which accelerated into 2010. Record dry bulk cargo movements, in turn, put renewed pressure on port facilities with increased congestion as a result. Tightness in raw material markets also ensured increased long-haul coal and grain movements from the Atlantic to the Pacific, which increased tonne-mile ship demand and also led to a more inefficient use of the fleet through greater ballasting of vessels.

Despite record net fleet growth in 2010, the BDI's annual average of 2,758 was 5.4% higher than the corresponding 2009 level. Average annual earnings rose for Handysize, Handymax/Supramax and Panamax vessels, but the Capesize sector saw an annual decline.

The opening months of 2011 have seen the freight market come under renewed downward pressure due to a series of disruptions to export cargo supply against a background of continued growth in fleet supply through record newbuilding deliveries. These cargo supply disruptions included:

(i) Severe flooding in Queensland (Australia) – the world's leading exporter of coking coal. The flooding led to the closure of a major coal rail network serving Gladstone late in December 2010, thereby impeding deliveries to that port, which has an export capacity of 75 million tonnes per annum. Significant reductions in cargo deliveries to other ports in Queensland such as Dalrymple Bay and Hay Point also ensued, as flooding prevented normal operation of rail services to these export outlets. Australian trade data showed that the country's coking coal exports fell by 12.6 million tonnes between fourth quarter 2010 and first quarter 2011, from 40.0 to 27.4 million tonnes. This was accompanied by a 7.5 million tonne decline in Australia's steam coal exports in the same period, from 37.9 to 30.4 million tonnes. The reductions in cargo supply that these problems entailed led to corresponding declines in chartering activity, to the detriment of ship demand and charter earnings.

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8 The Baltic Dry Index is just one of the daily indices published by the Baltic Exchange to demonstrate changes in freight market conditions for dry bulk carriers. Separate indicators are currently produced that relate specifically to the Handysize, Handymax/Supramax, Panamax and Capesize fleet sectors, all of which have moved in broadly similar patterns in recent years.

(ii) Reduced iron ore exports from Western Australia and Brazil. These followed from seasonal cyclones in the former and bad weather in the latter respectively, both of which occurred at a time of an export ban on iron ore supplies from the Indian state of Karnataka.

(iii) The major earthquake and tsunami that struck Japan on 11 March had far-reaching consequences for the dry bulk freight market, both in the short and longer term. Serious damage to various industrial plants, coal-fired power stations and import terminals all contributed to a dislocation of normal dry bulk trades into Japan. In particular, force majeure was declared by several companies on cargoes of iron ore and coal that had been due for shipment into ports that had been badly damaged by the earthquake and/or tsunami. The problems facing Japanese industry were compounded by widespread shortfalls in electricity supply as nuclear power stations were taken offline to undergo safety checks and as coal-fired power stations awaited fresh deliveries of coal stocks that had been swept away when the tsunami struck. From 1,562 points on 11 March, the BDI fell to 1,250 points by 26 April, or a decline of 20% in under seven weeks. As an illustration of the impact of the disaster on vessel demand and ship earnings, trip charter rates for Pacific round voyages fell from US$16,783/day on 11 March to US$8,735/day on 26 April and, at time of writing, remain well below pre-earthquake levels.

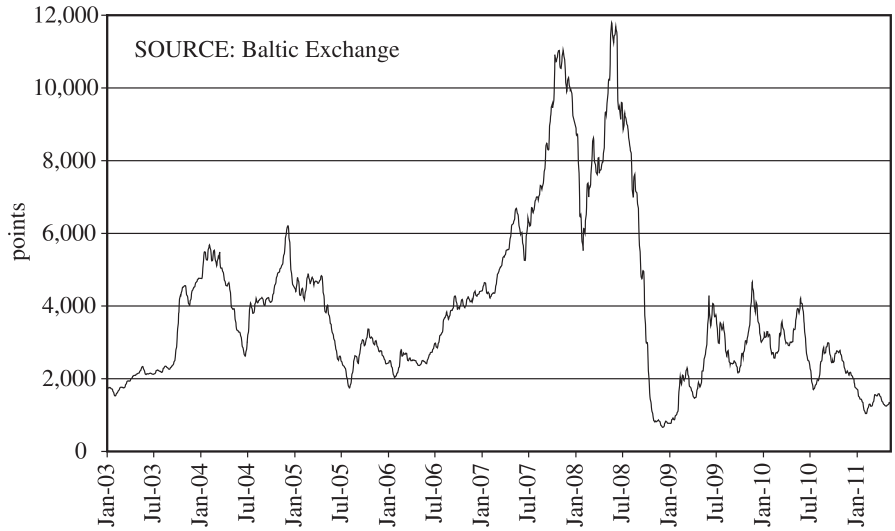
Longer term, the earthquake and tsunami are likely to have a profound effect on Japan's energy policy, with the role of nuclear power likely to be significantly downgraded, resulting in heightened reliance on fossil fuel imports, although extensive investment in new plant and port facilities would be needed to accommodate such a change.

The above disruptions, which collectively caused dry bulk exports to decline substantially from late 2010 volumes, led to lower demand for dry bulk carriers, thereby creating excess tonnage supply in the global dry bulk freight market. Furthermore, this did so at a time of rapid net fleet growth, amid very high volumes of bulk carrier newbuilding deliveries by historical standards. Although these disruptions to cargo supply from various loading areas have moderated as 2011 has progressed, volumes of newbuilding deliveries have remained very buoyant, thereby applying further downward pressure on freight rates for this vessel type – especially for very large ships.

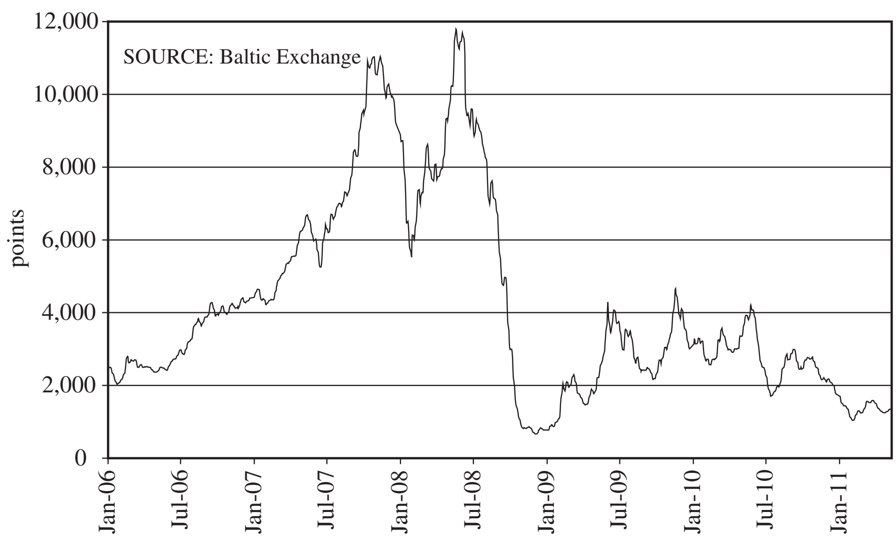
As our Company's fleet mainly operates on short-haul routes within the waters around the Greater China region, Indonesia, Singapore, Korea, Vietnam and the Philippines, rather than from those countries from which cargo supply was badly disrupted in the early months of 2011, the impact of these dislocations to normal vessel loading activities on our Company's operations proved rather indirect. However, the increased competition that resulted as ships that usually operated from the affected countries sought alternative employment would have impacted on the freight rates commanded by our Company's vessels and the utilization of our fleet, thus adversely influencing our financial return in doing so.

The above mentioned disruptions have compounded the effects of record newbuilding deliveries. As the accompanying charts shows, the Capesize sector has been worst affected, while Handysize vessels have shown the greatest resistance to decline due to their greater trading flexibility and slower-than-average fleet supply growth.

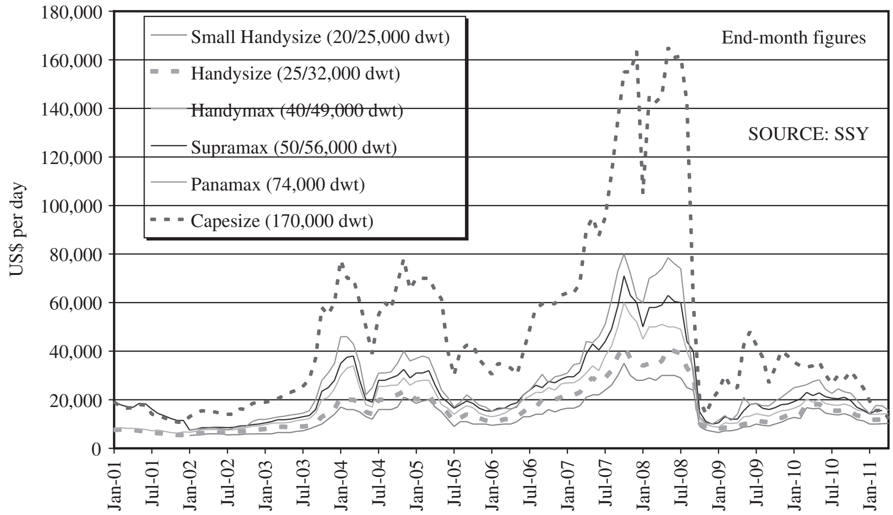
**Daily Baltic Exchange Dry Index**
**From 3 Jan 2003 to 12 May 2011**



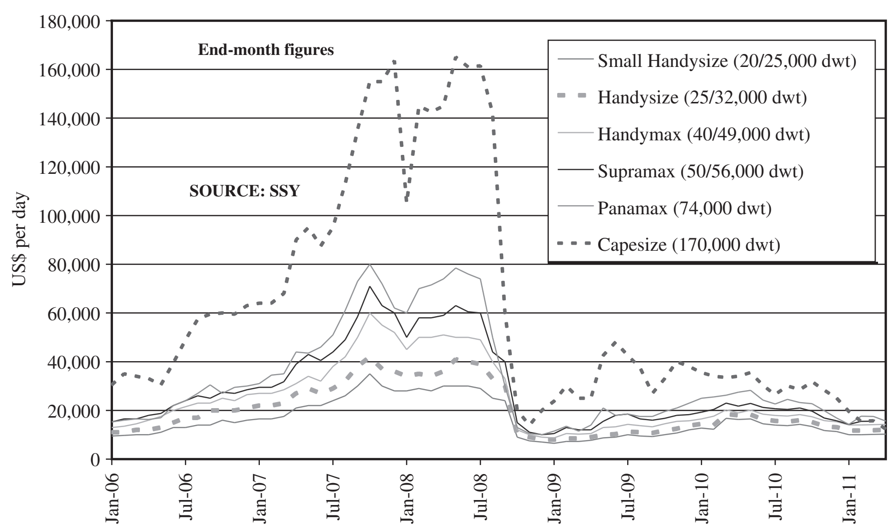

**Daily Baltic Exchange Dry Index**
**From 2 Jan 2006 to 12 May 2011**



**Dry Bulk Carrier Time-Charter Rates**
**From Jan 2001 to Apr 2011**




**Dry Bulk Carrier Time-Charter Rates**
**From Jan 2006 to Apr 2011**




## OVERALL TREND OF BUNKER

Bunker price levels are inevitably closely related to crude oil prices, which tend to be inherently volatile, varying in accordance not only with supply and demand, but also perceived threats to continuity of supply.

Prior to the international financial crisis in third quarter 2008 and ensuing onset of global recession, a buoyant world economy and fast-growing seaborne trade helped to underpin oil prices, so contributing to an upward trend in bunker prices. The Singapore 380cSt bunker price, which had begun 2008 at USD486/tonne, progressively increased to a 2008 peak of USD764.3/tonne on 15 July

2008 as shown in the graph below. Yet, once world recession set in, steep declines in commodity demand and lower volumes of seaborne trade together soon precipitated a dramatic slump in bunker prices, causing the price of this grade to plunge to just USD222.5/tonne by end-December 2008 – a decline of slightly more than 70 percent in under six months.

For much of first-half 2009, international oil and bunker markets remained far softer than before the global economic downturn began, with prices showing some volatility, yet staying well below year-earlier levels. As the year progressed, a partial rally ensued, with a firming tone becoming far more apparent from around the second quarter onwards. In overall terms, prices gradually increased and, by end-year, those for 380 cSt bunkers in Singapore had rebounded to USD491.5/tonne; this was up by USD269/tonne (+121%) from their 2008 close. Further slight net increases then followed in 2010, helped by a partial upturn in demand, with the Singapore price of 380 cSt bunkers ending the year at USD508/tonne, or up by 3.4% from 12 months earlier.

In the early months of 2011, several factors have contributed to heightened concerns about the security of global oil supply. In particular, civil unrest in much of the Arab world (especially in Libya and Yemen) has appeared to threaten normal cargo availability, with the added risk that resulting political instability could spread to other major oil exporting nations in North Africa and the Middle East. These concerns served to drive international oil prices upwards - a situation further compounded by military conflict in Libya, as NATO intervened to safeguard civilians from attack by government forces in that country.

Having progressively risen to over US$125/barrel by late April, international spot crude oil prices then moderated, amid a normal seasonal downturn in oil demand as the Northern Hemisphere emerged from winter, with this contibuting to a corresponding easing of bunker prices.

**Daily Singapore Bunker Price (380 cSt)**
**From 2 Jan 2007 to 12 May 2011**