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### OVERVIEW

We provide vessel chartering services to our charterers. We own and operate nine dry bulk vessels, including one Capesize vessel, four Panamax vessels, two Handymax vessels and two Handysize vessels with a total carrying capacity of approximately 577,000 dwt. During the Track Record Period, we mainly deployed our existing and disposed vessels in the waters around the Greater China region as well as Indonesia, Singapore, Korea, Vietnam, Cambodia, the Philippines and Russia. We generally transport dry bulk commodities including coal, sea sand and bauxite as well as iron ore and minerals during the Track Record Period.

#### Spot charter contracts

Spot charter contracts are one-off contracts where their freight rates are agreed based on instant (i.e. current) market rate. Under spot charter contracts, we calculate freight rates based on voyage charter or time charter.

In voyage charter, subject to a minimum fixed freight, we charge freight rates based on the weight of cargos transported and are responsible for both operating costs and voyage costs of the vessels. Generally, operating costs mainly comprise agency fees for our vessel crew, repair and maintenance, insurance and depreciation, while voyage costs mainly comprise bunkers and port charges. The final rates might be adjusted depending on the occurrence of demurrage or dispatch, if any. Additional charges will be imposed on the charterer in demurrage whereas credits will be given to the charterer in dispatch. We will issue the final invoice or credit note to the charterer after the above is ascertained.

Under time charter, we charge charter-hire on a per day basis, and we are responsible for the operating costs of the vessels, while charterers are responsible for the voyage costs of the vessels and bear the risk of any delays at port or during the voyage except for delays caused by us. The components comprising the operating costs and voyage costs under time charter are the same for voyage charter.

During the Track Record Period, other than the 2007 CoA we entered into with a Singapore construction company, all other charter contracts we secured were spot charter contracts, and approximately 81.8%, 46.5% and 75.5% of our revenue was generated from spot charter contracts.

#### CoAs

CoAs are longer-term charter contracts which cover a series of voyages (instead of a single voyage), where their freight rates are pre-determined and prevail throughout the agreed period under the contracts. During the Track Record Period and up to the Latest Practicable Date, our CoAs, by commodity nature, could be categorised by into two types:

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*(1) CoA regarding transportation of sea sand*

During the Track Record Period, we have entered into the 2007 CoA with a Singapore construction company, and approximately 18.0%, 52.2% and 23.9% of our revenue was generated from the 2007 CoA respectively. Pursuant to the 2007 CoA, we agreed to transport a certain agreed volume of sea sand for the customer at a pre-determined fixed rate. Despite that the 2007 CoA will be expired in May 2012, the obligations between the parties have been completely fulfilled.

We further entered into the 2011 First CoA with the customer in May 2011. Pursuant to the 2011 First CoA, we have agreed to transport a certain agreed volume of sea sand for the customer at a pre-determined fixed rate during the period between August 2011 and July 2013. The credit period given to the customer is 30 days. If the agreed volume of sea sand could not be delivered by us within the contract period, the Directors confirm that the contract period will be reasonably extended according to the common practice of the industry and the customer is obliged to pay the outstanding amount in respect of such volume of sea sand to us. Since the Singapore construction company is sizable, has a good track record, is a qualified supplier of the government and has been successful in tendering for governmental construction projects, the Directors consider that the financial situation of the Singapore construction company is stable.

In May 2011, we entered into the 2011 Second CoA with another Singapore construction company. Under the 2011 Second CoA, we have agreed to transport certain agreed volume of sea sand for the charterer at a pre-determined fixed rate during the period between July 2011 to July 2013. The credit period given to this Singapore construction company is 30 days.

*(2) CoA regarding transportation of steam coal*

We also entered into the China Coal CoA with China Coal, our top five customer during the Track Record Period, in May 2011. Pursuant to the China Coal CoA, we have agreed to transport a certain agreed volume of steam coal for China Coal at a pre-determined fixed rate during August 2011 to July 2012. The credit period given to China Coal is 30 days.

As at the Latest Practicable Date, the 2007 CoA was fully performed, and we had three CoAs in progress. Income from CoAs is recognised as revenue on the percentage of completion basis, so that revenue is recognised on the time proportion method of each individual voyage. The actual delivery dates under the three CoAs are proposed by the charterers and subject to our agreement. See “Risk factors – The revenue from the China Coal CoA, the 2011 First CoA and the 2011 Second CoA may not be evenly distributed during the contract periods” for details of the risks in relation to the CoAs.

### **Our Financial Performance**

#### *Track Record Period*

#### Revenue and profit

We generate revenue mainly from providing vessel chartering services. For each of the three years ended 31 December 2010, our revenue was approximately US\$75.7 million, US\$27.9 million and US\$46.5 million respectively; and our net profit was approximately US\$40.5 million, US\$75,000 and US\$9 million respectively.

#### Reasons for the decrease in revenue in 2009

Due to the global contraction of trade finance resulted from the financial crisis in late 2008, the demand for spot charter contracts and market freight rates were adversely affected. Since our vessel chartering services heavily rely on spot charter contracts which are more prone to market fluctuation, the decrease in the demand for spot charter contracts and the decrease in freight rates had a greater impact on our revenue in 2009 than our competitors, which might have different extent of reliance on spot charter contracts. If our competitors have more CoAs, as the duration term and the freight rates of such long-term contracts are pre-determined, their performance would be less affected by poor economic condition.

In addition, the decrease in coal exports from China in 2009 resulted in a decrease in the number of spot charter contracts we secured in 2009. Notwithstanding the increase in coal imports to China in 2009, we were unable to secure more spot charter contracts in respect of coal imports to China because of (i) keen competition; and (ii) low demand from our existing customers.

Due to the abrupt change in market condition during 2009, we had less spot charter contracts, and therefore the overall utilization rate of our vessels in such year decreased from approximately 76.5% to approximately 71.2%. Together with the effect of the decrease in our freight rates, our revenue experienced a significant decrease in 2009.

#### Recovery in 2010

Following the recovery of the global economy and trade activities, given that we rely on spot charter contracts which allow flexibility in capturing the upside in the shipping market, we were able to secure more spot charter contracts in 2010 and our profitability in such year was steadily improved.

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### *2011 first quarter*

#### Revenue

Our revenue decreased by approximately 55% from approximately US\$12.9 million in the three months ended 31 March 2010 to approximately US\$5.8 million in the three months ended 31 March 2011. The decrease in revenue during such period was mainly due to the political instability in the Middle East leading to concerns about global oil supply and substantial increase in bunker price, being one of the major variable costs, which discouraged us from taking orders negotiated with lower freight rates. The over-supply of vessels within the Asian region caused by cutting of cargo shipment to and from Japan as a result of the Japanese earthquake, tsunami and nuclear pollution breakout leads to the decrease in the demand for our services in March 2011.

The above led to a decrease in the overall utilization rate of our vessels from approximately 94.5% to approximately 44.1% for the first quarter of 2011. In line with the approximately 55% decrease in the Baltic Dry Index from the average of approximately 3,027 points for the first quarter of 2010 to the average of approximately 1,365 points for the first quarter of 2011, our revenue decreased by approximately 55% in the first quarter of 2011 compared to the same period in 2010 because of decrease in freight rate.

	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	<b>2011</b>
Coal	47.5%	39.0%
Sea sand	29.2%	44.9%
Bauxite	7.2%	15.4%
Iron ore	16.1%	—
Others	—	0.7%
	<hr/>	<hr/>
Total	<u>100%</u>	<u>100%</u>

Our revenue derived from transportation of sea sand increased during the first quarter of 2011 compared to the first quarter of 2010, as we transported more sea sand under the 2007 CoA during such period. We did not derive any revenue from transportation of iron ore during the first quarter of 2011, as the Directors confirm that our customers' demand for iron ore was relatively low during such period and therefore we did not secure charter contracts for transportation of iron ore during such period.

#### Cost of services

Our cost of services for the first quarter of 2011 had a relatively less decrease mainly due to certain fixed cost items, including crew agency fees and maintenance fees coupled with the increase in per tonne market bunker price, despite the decrease in our vessels' utilization rate during such period. In addition, we incurred approximately US\$1.1 million in respect of our other expenses (attributable to the professional fees and other expenses relating to our Hong Kong listing exercises), which is non-recurring in nature, during the period.

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### Net loss

As a result, we recorded a net loss of approximately US\$3.7 million during the three months ended 31 March 2011.

### Directors' view

Our Directors are of the view that the above circumstantial factors, which were the main causes of the decline in our financial performance, affect not only us, but the majority of the dry bulk vessel service providers focusing on the Asian region. There is no assurance that such net loss will not recur or we will be able to generate or (where appropriate) sustain revenue growth and profitability in the future.

### Maintenance work

During the period where the utilization rate of our vessels is low, we would arrange and schedule certain maintenance work to be performed during such period to reduce the idle time of our vessels and reduce the time to be spent on maintenance in the future. The Directors consider that the reschedule of such maintenance work would not affect our financial position as such maintenance work is mandatory and has to be done within a certain period of time, even if we do not perform such work during the period where the utilization rate of our vessels is low.

### Agency fees for vessel crews

As some of the wages of our crew members increased during the three months ended 31 March 2011 compared to the same period of 2010, the agency fees for vessel crew incurred increased, despite the decrease in our vessel's utilization rate during such period. Such agency fees for vessel crew are determined with reference to the number of crews paid instead of the number of voyages they worked on.

### Recent natural disasters in Japan

During the Track Record Period, since we rarely deployed our vessels in waters near Japan, our Directors consider that the recent natural disasters in Japan do not directly affect our operation. However, we suffer from indirect financial loss due to the worsening economic atmosphere brought by such disasters. Other than potential delay in discharging cargoes, our Directors are not aware of any potential claims as a result of the natural disasters. In the event that we encounter claims arising from the natural disasters, the relevant damages would be covered by our insurance policy. See "Risk factors – The recent natural disasters in Japan may affect our operation and financial performance" for the risk in this regard.

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### Our strategies

We intend to secure more CoAs to mitigate the fluctuation of our financial performance. Since the duration term and freight rates of such long-term contracts are pre-determined, we could still generate a stable income even if we are not able to secure spot charter contracts under poor economic condition. Our Directors consider that the 2011 First CoA, the 2011 Second CoA and the China Coal CoA could enable us to have a more stable income in the second half of 2011, which would also improve the overall utilization rate of our vessels.

### *Director's fee*

We have adopted a policy that our Director's fees are determined by a particular percentage of our profit made. Since our profit in 2009 was unsatisfactory and our Director's fees of that year would therefore be minimal under such policy, all of our executive Directors and our Chairman and non-executive Director Hsu Chih-Chien waived their Director's fees, despite the fact that we would have recorded a loss in 2009 if the above Director's fees were not waived.

### *Working capital*

The Directors are of the opinion that after taking into account (i) our existing cash flow; (ii) the cash flow to be generated from the operating activities partly contributed by the 2011 First CoA, the 2011 Second CoA and the China Coal CoA we secured in May 2011; and (iii) the standby banking facilities to be guaranteed by a pledge, the working capital available to our Group is sufficient for our requirements for at least 12 months from the date of this document.

### *Material adverse changes*

Our Directors confirm that there has been or may be a material adverse change in our financial or trading position since 31 December 2010 (being the date on which our latest combined financial statements were prepared which was set out in the accountants' report in Appendix I to this document) as our revenue decreased by approximately 55% from approximately US\$12.9 million in the three months ended 31 March 2010 to approximately US\$5.8 million in the three months ended 31 March 2011. See above for further details.

## COMPETITIVE STRENGTHS

We attribute our success to the following key competitive strengths:

### **Our fleet comprises vessels with different sizes and tonnage capacities**

As our fleet comprises a mix of Capesize, Panamax, Handymax and Handysize vessels with various tonnage capacities, we are able to accommodate and respond to our customers' shipping requirements in a flexible and efficient manner while reducing the idle time of our fleet.

We work closely with our customers to understand their transportation needs. With our vessel mix and operational readiness, we are able to respond to our customers' diverse and demanding shipment requirements.

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### **We have healthy cash flows and our administrative and finance costs are low**

As at 31 December 2008, 2009 and 2010, our bank balances and cash amounted to approximately US\$45.6 million, US\$43.2 million and US\$29.9 million respectively, while the net cash from operating activities for the Track Record Period amounted to approximately US\$44.6 million, US\$7 million and US\$21 million respectively. As at such year-end dates, our gearing ratios were approximately 13.4%, 8.7% and 5.4% respectively. Generally, we generate our revenue mainly from spot charter contracts, where charterers have to pay charter-hire in full before the voyage completes. As a result, we could maintain our trade receivables and debt turnover rate at a relatively low level, which enable us to have sufficient cash flow for our operation.

Our primary capital expenditure is acquisition of vessels. By capitalising on the experience and network of our management team to identify and acquire second-hand vessels in good conditions and at competitive prices, it has been our policy to acquire second-hand vessels instead of ordering brand new vessels. By such means, we maintain a relatively strong cash flow and do not heavily rely on debt financing to acquire new vessels which are generally more expensive. The interests paid by us during the Track Record Period in such connection amounted to approximately US\$0.2 million, US\$0.3 million and US\$0.1 million respectively. The financial institution which financed the acquisition of vessels has had business dealings with us for over seven years, and we believe we may obtain, as and when necessary, debt financing on favourable terms.

Since we engage a crew agent to supply our vessel crews and we leverage on our crew agent's administrative resources in managing our crew (including recruitment, work allocation and scheduling, and other related administrative work), we could save the cost of setting up an administrative office in China. As of the Latest Practicable Date, we only had 5 administrative and finance staff members.

Because of our prudent financial management policy and strong cash flows, we have been able to survive difficult operating environment and declare dividends of approximately US\$5 million to our Members for the year ended 31 December 2009, and may expand our fleet readily without much reliance on debt financing. During the Track Record Period, only one of our vessels was purchased with external financing, where we borrowed less than 65% of the purchase consideration of such vessel.

### **We have established long-term relationships with our customers and cargo brokers**

We believe that we have established a reputation in the shipping community for maintaining high standards of safety, performance and reliability in our provision of services. As a result, we are able to foster and maintain long-term relationships with our customers and cargo brokers.

We are able to further optimise the deployment of our fleet capacity and enhance our services to our customers given the long-term relationships with our customers and cargo brokers.

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### **We have an extensive market presence in the Greater China region and certain territories in Asia**

We have an extensive network of port agents and reliable network of cargo brokers in the Greater China region and certain territories in Asia, which relieves us of the need to set up sales offices across the region, thereby saving overheads without compromising on our ability to provide services over there and tap on any business opportunities when they arise.

Our Directors believe that through the extensive deployment of our vessels in the Greater China region and certain territories in Asia and our familiarity with the shipping market and shipping routes, we are able to capitalise on the economic growth in these regions and to meet the increasing transportation requirements of our existing and potential customers in these regions.

### **We have experienced management team with a proven track record and outstanding execution capabilities**

Our management team is led by our founders, including our Chairman and non-executive Director, Hsu Chih-Chien, and our Managing Director, Wu Chao-Huan. Mr. Hsu's reputation and valuable experience and knowledge in the maritime industry were fostered by his root to his family that had been engaged in the shipping business dating back to early 20th century that began in Shanghai. Mr. Wu has extensive experience in managing shipping business from strategic planning to sales and marketing.

Our Directors believe that as our management team is experienced in various facets of the dry-bulk shipping business (including sales and marketing, vessel operations, technical management and crewing, repair and maintenance, vessel financing and insurance), the team could adopt suitable strategies to cater for market demand and control risks, so that we could capture a larger market share and expand our business in the dry bulk shipping industry in Asia.

For further details on the experience of our management team, see "Directors, senior management and staff".

## **BUSINESS STRATEGIES**

Having regard to track record, the Directors believe that we are well-positioned to further develop our business and capture new business opportunities within the dry bulk shipping industry. To achieve this, we plan to continue capitalising on opportunities to leverage our competitive strengths and implement our business strategies:



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### **Expand our fleet**

To strengthen our competitiveness in the industry and satisfy the increasing demand for vessel chartering services, we intend to expand our fleet by acquiring more vessels. In general, we will continue to look for reasonably priced second-handed vessels to control our capital expenditure. We intend to look for vessels with larger capacity such as Capesize and Panamax vessels as we could achieve a higher profit margin from larger vessels and enhance our total carrying capacity. Though second-handed vessels would be our priority in selecting vessels, we remain open to possibilities of purchasing brand new vessels in the future.

Our Directors believe that the intended expansion of our fleet could assist us in capturing a larger market share and enhance our competitiveness against our competitors. In addition, we could improve our revenue and profitability in this regard.

### **Improve our equipment and facilities to enhance competitiveness**

We intend to purchase more equipment and improve our facilities to increase our operation efficiency and effectiveness. We intend to purchase conveyors to be installed on our vessels to facilitate loading and unloading process, which could enhance the efficiency of and shorten the time required in the loading and unloading processes.

Our Directors are of the view that the operating efficiency and effectiveness are important factors which contributed to our success, as the shortened loading and unloading process could enable us to shorten the chartering process and therefore could enter into more charter contracts to enhance our revenue. Through the improvement of our equipment and facilities for operations, our Directors believe that our competitiveness and financial performance would concurrently be improved as well.

### **Capitalising on our relationships with existing customers and expanding further in coal shipment**

We have established business relationships with certain coal traders and buyers in the Greater China region and Indonesia. A Taiwanese state-owned enterprise and China Coal Hong Kong Ltd. have been our customers since 2003 and 2004 respectively. PT Billy Indonesia, an Indonesian exporter of dry bulk commodities (including coal), has chartered our vessels for coal transportation since 2009. Such three companies are all our top five customers during the Track Record Period and the revenue contributed from them ranged from approximately 4.5% to 18.1% when they were our top five customers during such period.

Among the composition of dry bulk commodities we shipped, coal shipment represented the largest share of revenue during the Track Record Period except for the year ended 31 December 2009. For the years ended 31 December 2008 and 2010, coal shipment contributed approximately 70% and 51% of our total revenue respectively. See “Business – Customers” for details.

In May 2011, we have entered into the China Coal CoA with China Coal. For details, see “Business – Chatering Process – CoAs”.

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### **Continue in establishing a quality customer base**

Over the years, we have developed and maintained good relationships with our charterers and built our reputation in the industry. With our reliability and quality services, we have achieved business with a number of multinational corporations and state-owned enterprises. We believe that through our customer building and customer relationship management abilities, we have secured the trust and preference of our customers which increase the utilization rate of our vessels as well as our profitability. We will continue to maintain our relationship with our existing customers and expand our customer portfolio. Capitalising on good relationship with our charterers, we have entered into the 2007 CoA during the Track Record Period, and the 2011 First CoA, the 2011 Second CoA and China Coal CoA in May 2011. For details, see “Business – Chartering Process – CoAs”.

### **OUR BUSINESS**

#### **General**

We provide vessel chartering services to our charterers. We own and operate nine dry bulk vessels, which include one Capesize vessel, four Panamax vessels, two Handymax vessels and two Handysize vessels with a total carrying capacity of approximately 577,000 dwt. During the Track Record Period, we mainly deployed our existing or disposed vessels in the waters around the Greater China region as well as Indonesia, Singapore, Korea, Vietnam, Cambodia, the Philippines, Russia and certain territories in Asia. The dry bulk commodities which we transport include coal, sea sand and bauxite as well as iron ore and minerals during the Track Record Period.

Our acceptance of the engagement is subject to factors including freight rates, our vessel availability and type of goods to be chartered.

During the Track Record Period, other than the CoA we entered into with a Singapore construction company, all other charter contracts we secured were spot charter contracts. Spot charter contracts are one-off charter contracts where their freight rates are agreed based on instant (i.e. current) market rate. CoAs are longer-term charter contracts which cover a series of voyages (instead of a single voyage), where their freight rates are pre-determined and prevail throughout the agreed period under the contracts.

Under spot charter contracts, freight rates could be calculated based on voyage charter or time charter. In voyage charter, subject to a minimum fixed freight, we charge freight rates based on the weight of cargos transported and are responsible for both operating costs and voyage costs of the vessels. Generally, operating costs mainly comprise the agency fees for our vessel crew, repair and maintenance, insurance and depreciation, while voyage costs mainly comprise bunkers and port charges. The final rates might be adjusted depending on the occurrence of demurrage or dispatch, if any. Additional charges will be imposed on the charterer in demurrage whereas credits will be given to the charterer in dispatch. We will issue the final invoice or credit note to the charterer after the above is ascertained.

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Under time charter, we charge charter-hire on a per day basis, and we are responsible for the operating costs of the vessels, while charterers are responsible for the voyage costs of the vessels and bear the risk of any delays at port or during the voyage except for delays caused by us. The components comprising the operating costs and voyage costs under time charter are the same for voyage charter.

During the Track Record Period, we only had one CoA made with a Singapore construction company and its charter term was voyage charter. For each of the three years ended 31 December 2010, spot charter contracts accounted for approximately 81.8%, 46.5% and 75.5% of total revenue respectively; whereas our CoA accounted for approximately 18.0%, 52.2% and 23.9% of total revenue respectively.

### Fleet composition and utilization rates

As at the Latest Practicable Date, our fleet comprised nine dry bulk vessels, comprising one Capesize vessel, four Panamax vessels, two Handymax vessels and two Handysize vessels with a total carrying capacity of approximately 577,000 dwt. During the Track Record Period, we conducted several sales and purchases of vessels which changed the composition of our fleet. The following table sets forth the particulars of our vessels during the Track Record Period:—

Vessel name	Type	Year of purchase	Year of disposal	Year built	Age	Flag State	Classification society (Note 1)	Purchase cost (US\$ million)	Remaining estimated useful life (year(s)) (Note 3)	Estimated residual value (US\$ million)	Approximate carrying capacity (dwt)
<i>Existing vessels</i>											
Cape Warrior	Capesize	2010	N/A	1986	25	Panama	Isthmus Bureau of Shipping	9.7	5	8.1	146,000
Panamax Leader	Panamax	2010	N/A	1989	21	Panama	China Corporation Register of Shipping	12.9	9	4.7	67,000
Sea Pioneer	Panamax	2008	N/A	1984	27	Panama	International Register of Shipping	3.8	3	4.8	67,000
Valour	Panamax	2005	N/A	1985	25	Panama	China Corporation Register of Shipping	11.9	5	4.8	67,000
Courage	Panamax	2003	N/A	1984	27	Panama	China Corporation Register of Shipping	4.4	3	4.8	67,000
Zorina	Handymax	2008	N/A	1982	29	Panama	Bureau Veritas	16.0	1	4.6	48,000
Heroic	Handymax	2006	N/A	1982	29	Panama	China Corporation Register of Shipping	6.2	1	3.5	42,000
Bravery	Handysize	2005	N/A	1983	28	Panama	China Corporation Register of Shipping	7.9	2	3.3	36,000
Raffles	Handysize	2004	N/A	1984	27	Panama	China Corporation Register of Shipping	10.7	3	2.9	38,000
<i>Disposed vessels</i>											
Cape Ore	Capesize	2010	2010	1981	N/A	Panama	N/A (Note 2)	7.9	N/A (Note 2)	N/A (Note 2)	128,000
Panamax Mars	Panamax	2004	2009	1980	N/A	Panama	N/A (Note 2)	8.7	N/A (Note 2)	N/A (Note 2)	62,000
Ally II	Handysize	2002	2008	1977	N/A	Panama	N/A (Note 2)	1.2	N/A (Note 2)	N/A (Note 2)	35,000
Jeannie III	Handysize	2001	2010	1977	N/A	Panama	N/A (Note 2)	1.1	N/A (Note 2)	N/A (Note 2)	35,000

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*Notes:*

1. All our vessels, for purpose of safety classification society, were inspected and classified by the Isthmus Bureau of Shipping, Bureau Veritas, International Register of Shipping and China Corporation Register of Shipping, as the case may be.
2. Since we no longer own such vessel, we do not have the information regarding its current classification society, remaining estimated useful life and estimated residual value.
3. Estimated useful life means 30 years from the date of initial delivery from the shipyard. We determine the estimated useful lives of vessels mainly for calculating their depreciation amount. Our Directors consider that the actual useful lives of our vessels could be more than 30 years because: (i) it is not mandatory to scrap a vessel if it is more than 30 years old, and hence whether to scrap a vessel is a economic decision; and (ii) we owned and operated vessels that were older than 30 years during the Track Record Period. As at the year-end dates of the last five financial years, we have maintained at least 8 vessels. As of the Latest Practicable Date, we had no existing plan to downsize our fleet capacity.

As at the Latest Practicable Date, other than MV Zorina, we owned all of our vessels without encumbrances. MV Zorina, a Handymax vessel, was subject to a mortgage as security for our vessel financing in October 2008. The financing is expected to be fully repaid in October 2011 and we had not defaulted in repayment up to the Latest Practicable Date.

During the Track Record Period, our fleet taken as a whole maintained a utilization rate ranged from approximately 71.2% to approximately 85.1%. The following table sets forth the utilization rate of each type of our vessels during the Track Record Period:–

Vessel Type	Utilization rate ( <i>Note</i> )		
	Year ended 31 December		
	2008	2009	2010
Capesize	–	–	61.9%
Panamax	62.3%	57.8%	81.3%
Handymax	90.4%	78.2%	98.5%
Handysize	83.7%	79.9%	86.9%
<b>Overall</b>	<b>76.5%</b>	<b>71.2%</b>	<b>85.1%</b>

*Note:* The utilization rate for each vessel type is calculated based on the aggregated number of days during which the underlying vessel(s) was/were owned and operated by us, less such estimated aggregated number of off-hire days due to dry-docking or other repair and maintenance and the off-hire period in between two charter periods, divided by the aggregated number of days of the underlying vessel(s) owned and operated by us for the year (on the basis of 365 days per year).

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The following tables set forth the details of calculating the utilization rate of each type of our vessels and the overall utilization rate of our fleet during the Track Record Period:–

For the year ended 31 December 2008					
Vessel Type	Aggregated number of days for which the type of vessel(s) was operated by us (A)	Aggregated number of days without charter hire due to repair and maintenance (B)	Aggregated number of days without charter hire for reasons other than repair and maintenance (C)	Aggregated number of days for calculating the average Daily TCE (A)-(B)-(C)	Utilization rate ((A)-(B)-(C))/(A)
Capesize	–	–	–	–	–
Panamax	1,138	250	179	709	62.3%
Handymax	437	–	42	395	90.4%
Handysize	<u>1,407</u>	<u>163</u>	<u>66</u>	<u>1,178</u>	83.7%
<b>Overall</b>	<b><u>2,982</u></b>	<b><u>413</u></b>	<b><u>287</u></b>	<b><u>2,282</u></b>	76.5%

For the year ended 31 December 2009					
Vessel Type	Aggregated number of days for which the type of vessel(s) was operated by us (A)	Aggregated number of days without charter hire due to repair and maintenance (B)	Aggregated number of days without charter hire for reasons other than repair and maintenance (C)	Aggregated number of days for calculating the average Daily TCE (A)-(B)-(C)	Utilization rate ((A)-(B)-(C))/(A)
Capesize	–	–	–	–	–
Panamax	1,098	143	320	635	57.8%
Handymax	730	57	102	571	78.2%
Handysize	<u>1,095</u>	<u>72</u>	<u>148</u>	<u>875</u>	79.9%
<b>Overall</b>	<b><u>2,923</u></b>	<b><u>272</u></b>	<b><u>570</u></b>	<b><u>2,081</u></b>	71.2%

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For the year ended 31 December 2010					
Vessel Type	Aggregated number of days for which the type of vessel(s) was operated by us (A)	Aggregated number of days without charter hire due to repair and maintenance (B)	Aggregated number of days without charter hire for reasons other than repair and maintenance (C)	Aggregated number of days for calculating the average Daily TCE (A)-(B)-(C)	Utilization rate ((A)-(B)-(C))/(A)
Capesize	278	49	57	172	61.9%
Panamax	1,321	3	244	1,074	81.3%
Handymax	730	4	7	719	98.5%
Handysize	<u>952</u>	<u>45</u>	<u>80</u>	<u>827</u>	86.9%
<b>Overall</b>	<b><u>3,281</u></b>	<b><u>101</u></b>	<b><u>388</u></b>	<b><u>2,792</u></b>	85.1%

For each of the three years ended 31 December 2010, the overall utilization rates of our vessels were approximately 76.5%, 71.2% and 85.1% respectively. The utilization rates of our Panamax vessels were relatively low as compared to those of other vessels in 2008 and 2009. Such low utilization rates were mainly due to the decrease in the number of spot charter contracts we secured in the second half of 2008 and first half of 2009, because of the contraction of global trade finance and global economic crisis as well as a drop in China's coal exports. These were also the primary reasons for the decrease in the utilization rate of our Handysize vessels in 2009. As our Handysize vessels were engaged in connection with the CoA made with a Singapore construction company during such period, the utilization rates of which was not significantly affected by the unfavourable economic condition in 2008 and 2009.

Following the global economic recovery, the utilization rates of our Panamax, Handymax and Handysize vessels were all improved in 2010. In particular, the utilization rate of our Handymax vessels reached approximately 98.5% in such year. The utilization rate of our Capesize vessel in 2010 was approximately 61.9%, which was mainly due to the non-operating time used for the repair and maintenance work performed after our acquisition in May 2010.

Our Directors are of the view that our diverse fleet could provide us with the flexibility to meet various needs of our customers. We intend to look for reasonably priced second-hand vessels to expand our fleet. To generate long-term value, we remain open to the possibilities of purchasing new vessels in the future. Our Directors are of the view that by expanding our fleet and optimising our fleet composition, we will be able to (i) maintain and consolidate our customer base; (ii) enhance our overall competitiveness; (iii) secure more stable charter hire income; and (iv) achieve a better cost-efficiency as a result of economy of scale.

### ***Our policy on vessel investment and divestment***

In general, we purchase vessels to replace existing vessels or to expand our total carrying capacity. A number of factors will be taken into account in making our decision on the purchases of vessels, which include the following: In line with the shipping industry practices and for safety reasons, our vessels generally undertake an overhaul in the intervals of every five years. For vessel replacement purpose, we compare the budgeted overhaul costs, the expected sale price of the relevant existing vessel, and the purchase price of a replacement vessel. For carrying-capacity expansion purpose, we would take into account, among others, the total carrying capacity and utilization rate of our vessels, the expected change in the demands for transport of dry bulk commodities and our financial position.

As mentioned above, when we consider that the benefits of purchasing a replacement vessel outweigh those of carrying out an overhaul of an existing vessel, we may proceed to sell such existing vessel (which is usually purchased by another shipper or by companies which dismantle the vessel and sell the usable parts and equipment and extract steel for re-use). Occasionally, we sell our vessels when there is a commercially justifiable offer and such sale will not affect our normal operations. For instance, in 2010, after our purchase of the vessel “MV Cape Ore”, an Independent Third Party offered to purchase such vessel at a sale price which was higher than our original purchase price, and we concurrently identified a younger Capesize vessel with larger carrying capacity (namely, MV Cape Warrior) and as the proposed purchase price for which was reasonable, we decided to proceed with the sale of “MV Cape Ore” in the same year. Our Directors confirm that such vessel changing decision is a specific case of us and we are not engaged in the vessel trading business. Since the establishment of our Group, we have not sold any vessel because of over-capacity of our vessels or financial exigency of our Group.

As all the vessels owned by us during the Track Record Period and as of the Latest Practicable Date were second-hand vessels, there is no warranty period provided by the respective vendors.

During the Track Record Period, the sellers who sold the vessels to us and the purchasers who purchased the vessels from us are all Independent Third Parties.

### ***Inspection work carried on vessel acquisition***

To ensure the seaworthiness and quality of a pre-owned vessel we intend to acquire, we will first request our brokers to inspect the vessel. If the result of the inspection is satisfactory, our technical department would further conduct an in-depth inspection and examination on the vessel and engage professional divers to inspect the bottom part of the vessel to ensure there is no hidden defect in such part. We will then consider whether to acquire the vessel based on the results prepared by our technical department and the professional divers.

### **Chartering process**

Generally, we offer two types of charter contracts to our customers, namely spot charter contracts and CoAs.

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### *Spot charter contracts*

Contracts secured on a spot basis are normally one-off and for charterers who demand for vessel chartering services on an ad hoc basis. During the Track Record Period, we secured all our spot charter contracts through shipping brokers, who acted as intermediaries between the charterers and us, and we enter into charter contracts directly with charterers. Shipping brokers possess information of the charterer's shipping requirements, including charter terms and preferred freight rates, as well as fleet composition and availability of us and other shipping companies. Basically, through the platform provided by shipping brokers, charterers are able to choose vessels which satisfy their shipping requirements while we, along with other shipping companies, can choose charterers that match our preference. Factors affecting our decisions in choosing charterers are mainly freight rates, our vessel availability and type of goods to be chartered. The negotiation of the charter terms and freight rates between the shipping companies and charterers are generally conducted through shipping brokers.

In particular, when a charterer confirms to choose our vessel, the shipping broker would notify us. We will then decide whether to accept the charter based on factors including freight rates, our vessel availability and type of goods to be chartered. If we accept the charter, we will schedule our vessels in accordance with the charterers' requirements and issue an invoice to them. The goods of the charterer will be loaded at the loading port and then be shipped to the destination port for discharge. We will unload the goods after we receive a full payment of charter-hire income from the charterer.

Generally, we determine our freight rates in two manners, namely voyage charter and time charter, which are applicable to CoA as well.

In voyage charter, subject to a minimum fixed freight (normally determined with reference to minus 10% of the tonnage capacity of the type of vessel), we charge freight rates based on the weight of cargos transported and we as shipowner are responsible for both operating costs and voyage costs of the vessels. Generally, operating costs represent the agency fees for our vessel crew, repair and maintenance, insurance and depreciation, while voyage costs mainly comprise bunkers and port charges. The final rates might be adjusted depending on the occurrence of demurrage or dispatch, if any. Additional charges will be imposed on the charterer in demurrage whereas credits will be given to the charterer in dispatch. We will issue the final invoice or credit note to the charterer after the above is ascertained.

In time charter, we charge charter-hire on a per day basis, and we are responsible for the operating costs of the vessels, while charterers are responsible for the voyage costs of the vessels and bear the risk of any delays at port or during the voyage, except for delays caused by us. The components comprising the operating costs and voyage costs are same as the voyage charter.

For spot charter contracts, it is our Group's general policy to request customers to prepay the charter-hire income in full before unloading of goods at the designated ports for voyage charter, and to prepay the charter-hire income in full for at least 10 days before the commencement of voyage for time charter. For CoAs, our management generally grants credit only to customers with good credit ratings. When the hire period completes, we will issue to the charterer a final invoice which mainly



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adjusts the bunker charges. We will calculate the difference in the level of fuel remaining in the vessel both before the charter begins and after the charter completes. We will charge additional costs for the fuel deficit, whereas we will give credit notes for the fuel surplus. In the event of accidents, including natural disaster, during the course of chartering, other than war risks, the loss suffered in relation to the accidents would normally be covered by our insurance after making payment of a pre-determined minimal amount of deductible.

### *CoAs*

Contracts of affreightment or CoAs are longer-term voyage charters for a contracted number of shipments or for a contracted tonnage of cargo to be transported by a series of voyages for an agreed period with a pre-determined freight rate. CoAs could be secured through shipping brokers as well as shipping companies themselves. The process of securing CoAs through shipping brokers is similar to the process in spot charter contracts. During the Track Record Period and up to the Latest Practicable Date, our CoAs could be categorised into two types:

#### *(1) CoA regarding transportation of sea sand*

We entered into the 2007 CoA with the Singapore construction company in 2007 on voyage charter basis for a fixed freight rate per ton of cargo shipped. Pursuant to the 2007 CoA, we have agreed to transport a certain agreed volume of sea sand for the customer at a pre-determined fixed rate. Despite that the 2007 CoA will be expired in May 2012, the obligations between the parties have been completely fulfilled. We further entered into the 2011 First CoA with the Singapore construction company in May 2011. Pursuant to the 2011 First CoA, we have agreed to transport a certain agreed volume of sea sand for the customer at a pre-determined fixed rate during the period between August 2011 and July 2013. The credit period given to the customer is 30 days. If the agreed volume of sea sand could not be delivered by us within the contract period, the Directors confirm that the contract period will be reasonably extended according to the common practice of the industry and the customer is obliged to pay the outstanding amount in respect of such volume of sea sand to us. None of our vessels are designated exclusively for the 2007 CoA, and we fulfill the customer's requirement by sending our Handysize, Handymax and Panamax vessels for such voyages.

The Singapore construction company is ultimately owned by three individuals who are Independent Third Parties. It has been principally engaged in the business of building construction in Singapore since 1980's. Since the Singapore construction company is sizable, has a good track record, is a qualified supplier for the government and has been successful in tendering for governmental construction projects, the Directors consider that the financial situation of the Singapore construction company is stable.

In May 2011, we entered into the 2011 Second CoA with another Singapore construction company on voyage charter basis. Under the 2011 Second CoA, we have agreed to transport certain agreed volume of sea sand for the charterer at a pre-determined fixed rate during the period between July 2011 to July 2013. The credit period given to this Singapore construction company is 30 days.

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### (2) *CoA regarding transportation of steam coal*

We also entered into the China Coal CoA on voyage charter basis with China Coal, our top five customer during the Track Record Period, in May 2011. Pursuant to the China Coal CoA, we have agreed to transport a certain agreed volume of steam coal for China Coal at a pre-determined fixed rate during August 2011 to July 2012. The credit period given to China Coal is 30 days.

As of the Latest Practicable Date, the 2007 CoA was fully performed, and we had three CoAs in progress. Please refer to the section headed “Risk Factors – The revenue from the China Coal CoA, the 2011 First CoA and the 2011 Second CoA may not evenly distributed during the contract periods” for details.

### *Our focus*

A significant portion of our revenue was derived from spot charter contracts during the Track Record Period. For each of the three years ended 31 December 2010, spot charter contracts accounted for approximately 81.8%, 46.5% and 75.5% of our total revenue respectively; whereas the 2007 CoA accounted for approximately 18.0%, 52.2% and 23.9% of our total revenue respectively. We will continue concentrating on securing spot charter contracts, since our Directors believe that spot charter contracts would increase our flexibility in scheduling our vessels to meet our charterers’ disparate requirements and capturing the potential upside of the shipping market. Nevertheless, we will also seek suitable opportunities to secure CoAs to enable us to have relatively stable revenue during the contract period.

### *Freight rates*

The following table sets forth our average freight rates for each type of our vessels during the Track Record Period:

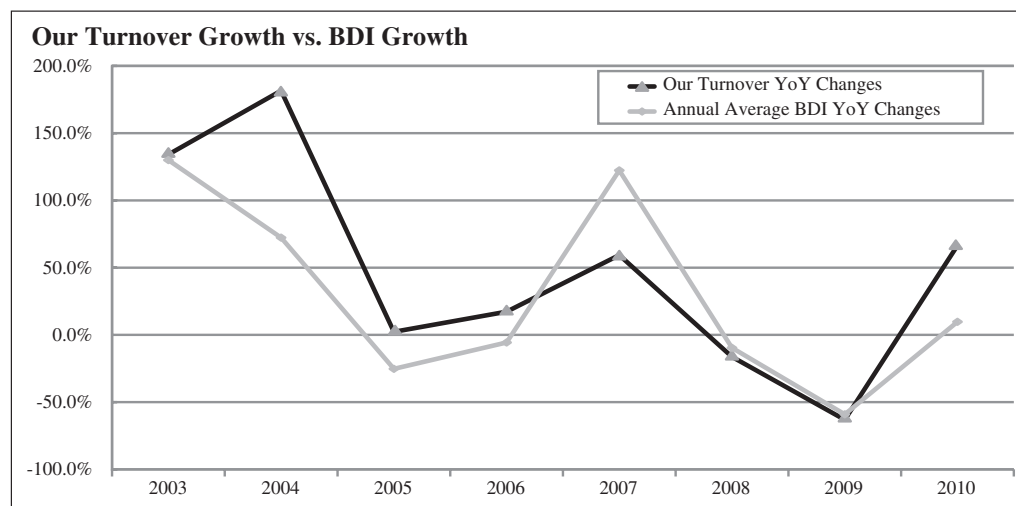
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>1<sup>st</sup> quarter of 2010</b>	<b>1<sup>st</sup> quarter of 2011</b>
	<b>Our average freight rates</b>	<b>Our average freight rates</b>	<b>Our average freight rates</b>	<b>Our average freight rates</b>	<b>Our average freight rates</b>
	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Capesize	–	–	16.6	38.4	15.1
Panamax	39.4	19.1	16.3	20.2	15.3
Handymax	29.6	12.0	17.8	19.0	19.5
Handysize	30.4	9.8	15.8	16.9	14.0

#### *Notes:*

1. The average freight rate is calculated based on the turnover derived from the type of vessel of the period divided by the number of voyage days for such type of vessel.

### Comparison of our revenue growth with Baltic Dry Index growth

The graph below sets forth the comparison of our revenue growth with the Baltic Dry Index growth between 2003 and 2010 (the “**Comparison Period**”).



As shown above, during the Comparison Period, our revenue growth was generally in line with or sometimes outperformed the year-on-year growth rate of the annual average of Baltic Dry Index (the “**BDI Growth Rate**”), except in 2007, 2008 and 2009.

In 2007, our revenue growth rate was approximately 59.4%, which was lower than the BDI Growth Rate of approximately 122.3% because the BDI Growth Rate was driven more by larger vessels (such as Capesize and Panamax vessels) than smaller vessels, and our Group did not have Capesize vessels at that time.

In 2008, our revenue growth rate was approximately -16.3%, which underperformed the BDI Growth Rate of approximately -9.6%. Likewise, our revenue growth rate in 2009, which was approximately -63.1%, underperformed the BDI Growth Rate of approximately -59.0%. Our underperformance in 2008 and 2009 was attributable to the volatile Baltic Dry Index and the lower utilization rate of our fleet as a result of the global contraction of trade finance, global economic crisis and drop in China’s coal export.

Save for the above periods, our revenue growth rate was in line with or even outperformed the BDI Growth Rate during the Comparison Period. In 2004, our revenue growth rate of approximately 181.6% and was significantly higher than the BDI Growth Rate of approximately 72.3% in such year. In 2005, even though our revenue growth rate of approximately 2.3% was relatively low, it still outperformed the BDI Growth Rate of approximately -25.3%. In 2010, our revenue growth rate of approximately 66.5% was substantially higher than the BDI Growth Rate of approximately 9.7% in 2010. Our Directors are of the opinion that the general correspondence of our revenue growth rate with the BDI Growth Rate and our outperformance in 2004, 2005 and 2010 are partly because of our business model, which have placed more reliance on spot charter and allowed our Group to capture the market change by agreeing to more competitive freight rate during economic boom.

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### **Fleet management**

Our fleet is primarily managed by our own internal departments, namely the (i) operations department; (ii) technical department; (iii) safety and systems department; and (iv) financial and administration department.

#### ***Operations department***

Our operations department is primarily responsible for monitoring the overall vessel scheduling of our fleet, crew placement and liaison with all parts agents. This department is also responsible for planning and scheduling our fleet as a whole and individually to meet the requirements of our customers. Our Directors are of the view that our operations department could optimize each voyage of our vessels in terms of time and cost saving.

This department also monitors the status and movement of each of our vessels through direct communication, e-mailing and our global positioning system. Our Directors believe that such methods could ensure our vessels are sailing in accordance with scheduled routines and timing.

#### ***Technical department***

Our technical department is primarily responsible for regular and ad hoc checking of each of our vessels. Senior staff members of the department are responsible for supervising all repairs and maintenance work on site to ascertain such work is properly performed. The department is also responsible for vessel inspection prior to our vessel acquisitions.

#### ***Safety and systems department***

Our safety and systems department primarily provides safety management services to our vessels. The department performs internal regular and ad hoc audits to comply with international rules and regulations of international organizations such as the IMO.

#### ***Financial and administration department***

Our financial and administration department is primarily responsible for the finance and accounting for our Group as well as preparing budgets and forecasts in accordance with our board of directors and reporting to our managing Director regularly. The department is also responsible for monitoring our internal control.

### **Sales and marketing**

During the Track Record Period, we secured our charter contracts through intermediaries such as shipping brokers as well as directly through our marketing activities. All of our spot charter contracts were secured through shipping brokers, whereas the 2007 CoA made with a Singapore construction company was secured through our Shanghai representative office. During the Track Record Period, our revenue generated through shipping brokers was approximately US\$62 million, US\$13.4 million and US\$35.4 million, representing approximately 82.0%, 47.8% and 76.1% of our total revenue

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respectively; and our revenue generated from our sales and marketing department was approximately US\$13.6 million, US\$14.6 million and US\$11.1 million, representing approximately 18.0%, 52.2% and 23.9% of our total revenue respectively.

Shipping brokers possess information of the charterer's shipping requirements, including charter terms and preferred freight rates, as well as fleet composition and availability of us and other shipping companies. Basically, through the platform provided by shipping brokers, charterers are able to choose vessels which satisfy their shipping requirements while we, along with other shipping companies, can choose charterers that match our preference. Factors affecting our decisions in choosing charterers are mainly freight rates, our vessel availability and type of goods to be chartered. The negotiation of the charter terms and freight rates between the shipping companies and charterers is generally conducted through shipping brokers.

In particular, when a charterer confirms to choose our vessel, the shipping broker would notify us. We will then decide whether to accept the charter based on factors including freight rates, our vessel availability and type of goods to be chartered. If we accept the charter, we will schedule our vessels in accordance with the charterers' requirements and issue an invoice to them. The goods of the charterer will be loaded at the loading port and then be shipped to the destination port for discharge. We will unload the goods after we receive a full payment of charter-hire income from the charterer.

Shipping brokers only act as intermediaries, and we directly enter into charter contracts with the charterers. The charterers pay the service fees directly to us, and we pay approximately 2.5% to 5.0% of our services fees to the shipping brokers as commission. During each of the three years ended 31 December 2010, we secured charter contracts through eight, four and six shipping brokers respectively. During the Track Record, we did not enter into any long-term contracts with shipping brokers, and other than Way-East, the Directors confirm that, after making reasonable enquiries, all of our shipping brokers are Independent Third Parties.

We currently do not have any particular plan to expand our sales and marketing department, and our Directors believe that we will continue to secure most of our spot charter contracts through shipping brokers.

Our sales and marketing activities are managed by our sales and marketing department. The department is primarily responsible for planning and formulating our business development strategies and long-term marketing plans. The department is also responsible for securing new customer accounts and managing relationships with our existing charterers. Upon receipt of a quotation request from a charterer, we will calculate our freight charges based on estimated cost and the prevailing market rates, and accordingly provide a quotation to the charterer. The freight rates are either based on daily rate for time charter or tonnage rate for voyage charter depending on the charterer's requirements.

Our marketing activities are mainly conducted through our Taiwan office and representative office in Shanghai, which target on potential charterers in Asia and the PRC respectively. During the Track Record Period, we were able to secure a CoA through our Shanghai representative office. Despite the fact that most of charter contracts were secured through shipping brokers during the Track Record Period, the Directors believe that other than the revenue generated from the CoA, the marketing activities conducted through our representative offices could assist us in maintaining a closer relationship with our existing charterers and to seek new charterers.

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### Ship management

During the Track Record Period, we conducted ship management activities with a minimal extent. For each of the three years ended 31 December 2010, our revenue generated from ship management was approximately US\$140,000, US\$360,000 and US\$264,000, representing approximately 0.2%, 1.3% and 0.6% of total revenue respectively. During the Track Record Period, we disposed of several vessels, without the purpose of trading, to a few buyers, where some of the buyers lack experience in managing and operating vessels. As a result, we assist them in managing their vessels by charging them a ship management fee in return. Our scope of services mainly covers port arrangement and repair and maintenance arrangement. Our Directors are of the view that our revenue derived from ship management is insignificant to our financial performance.

### Investment and structured deposit

When we have short-term excess cash flow, we occasionally make conservative investments. As at 31 December 2010, our held-for-trading investments and structured deposit were approximately US\$742,000 and US\$1 million respectively.

During the Track Record Period, we made certain held-for-trading investments. We subscribed approximately one million shares in one of the largest PRC banks during its initial public offering in Hong Kong in 2006, and such shares were sold in 2009 with approximately 100% profit. We also subscribed one million TDR shares in a Chinese shipyard company listed in the SGX during its offering in Taiwan in 2010, and we are still holding such shares.

We have adopted a policy in relation to our investment in financial instruments. Our investment is restricted to shares of listed companies, and the investment amount is restricted to not more than 5% of our cash balance. Any proposed investment has to be approved by the Board and the Audit Committee. If the investment is approved and made, our management will review and monitor such investment on a weekly basis and will sell the shares when consider appropriate.

We placed a structured deposit of US\$1,000,000 with a bank in Hong Kong in April 2010. The annual coupon rate is within 1% to 3% and the deposit matures in April 2013. When we were obtaining a letter of credit facility from the bank in 2010, our Directors intended to obtain an interest income from the deposit with the bank in relation to the letter of credit facility, we therefore placed such structured deposit with the bank. See note 25 of Appendix I to this document for further details of this structured deposit.

As at the Latest Practicable Date, we did not have any particular plan with regard to investment in financial instruments.

### CUSTOMERS

For each of the three years ended 31 December 2010, our revenue was approximately US\$75.7 million, US\$27.9 million and US\$46.5 million respectively. For each of the three years ended 31 December 2010, our five largest customers together accounted for approximately 56.7%, 72.4% and 57.7% of our total revenue respectively; and our largest customer accounted for approximately 18.1%, 52.2% and 23.9% of our total revenue during the same period respectively.

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Our five largest customers during the Track Record Period included Daeyang Shipping Co., Ltd, Winning Shipping (HK) Co., Ltd, China Coal, and Shaoguan Jiameng Fuel Co., Ltd. Our business relationship with our top five customers during the Track Record Period was approximately 2 years to 8 years.

As at the Latest Practicable Date, none of our Directors or their respective associates, and none of the existing Shareholders who (to the best knowledge of the Directors) own more than 5% of the issued share capital of our Company, had any interest in any of the five largest customers during the Track Record Period.

The following table sets forth the breakdown of shipment revenue attributable to each type of our dry bulk commodities transported during the Track Record Period:–

### Breakdown by percentage of revenue

	For the years ended 31 December		
	2008	2009	2010
Coal	69.8%	30.4%	51.3%
Sea sand	18.3%	52.7%	23.9%
Bauxite	7.9%	8.5%	15.5%
Iron ore	0.7%	1.3%	7.1%
Others	3.3%	7.1%	2.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Payment terms

Our Group has a policy of requesting certain customers to prepay the charter-hire income in full before discharging for voyage charter and prepay the charter-hire income for time charter in relation to our spot charter contracts, the balance of trade receivables at the end of the reporting period are normally low. For our CoAs, our management generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. Such credit terms normally range within two weeks. The actual credit terms granted to these customers are determined based on our past experience with them and their payment track records. For new customers, we will conduct background checks and assessment of their credit worthiness prior to entering into any charter contract.

The unsettled trade receivables are monitored on an ongoing basis and followed up by the finance department. Our management reviews the recoverable amount of each individual receivable regularly to ensure that follow up actions are taken to recover overdue debts and adequate impairment losses. Bad debts will be written off against trade receivables.

During the Track Record Period, our invoices were mostly denominated in US dollars and the payments which we received from our customers were mainly settled in US dollars.

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### SUPPLIERS

For each of the three years ended 31 December 2010, our five largest suppliers together accounted for approximately 71.4%, 42.8% and 47.0% of our total cost of services respectively; where the largest supplier accounted for approximately 26.8%, 15.7% and 23.7% of our total cost of services during the same period respectively.

Our five largest suppliers during the Track Record Period included vessel crew agent, repair and maintenance service providers and petroleum suppliers. Our business relationship with our top five suppliers during the Track Record Period was approximately 2 years to 10 years.

As at the Latest Practicable Date, none of our Directors or their respective associates, and none of the existing Shareholders who (to the best knowledge of the Directors) own more than 5% of the issued share capital of our Company, had any interest in any of the five largest suppliers during the Track Record Period.

### Payment terms

We did not enter into any long-term contract with bunker suppliers or shipyards during the Track Record Period. Bunker fees payable to bunker providers are generally payable within 30 days after the delivery of bunker. Payments to shipyards for repair and maintenance are generally made by instalments, part of which shall be payable during the dry-docking, and the balance of which shall be payable in one lump sum or normally two instalments within 30 days to 60 days after completion of the dry-docking. The fees and costs payable to the suppliers are mainly settled in US dollars.

During the Track Record Period, we did not experience any material dispute with our suppliers.

### AWARDS AND RECOGNITIONS

Since our listing on the SGX-ST in 2005, we have been granted a number of awards and recognitions by recognized organizations in respect of our business:

- Ranked the world's 10th best shipping company for financial performance in 2006 by Marine Money International
- Awarded the world's best shipping company for financial performance in 2007 by Marine Money International
- Awarded "Asia's 200 best small and midsize companies" by Forbes Asia in 2008
- Ranked the world's 10th best shipping company for the financial performance in 2008 by Marine Money International

Our Directors believe that these awards and recognitions signify our advantageous position in the shipping industry in Asia.



**REPAIR AND MAINTENANCE OF OUR FLEET**

To ensure the seaworthiness and safe operation of our vessels, we have been closely monitoring the conditions of our vessels. Our vessels are classed by China Corporation Register of Shipping, Isthmus Bureau of Shipping, International Register of Shipping and Bureau Veritas, which are classification societies recognised by Panama, the flag state of our vessels. A classification society is an organisation whose main function is to carry out surveys of ships while being built and at regular intervals after construction, its purpose being to set and maintain standards of construction and upkeep for ships and their equipment. Each classification society has a set of rules governing the requirements for surveys and, for a ship to maintain her class, she must comply with these rules. In most countries, it is not obligatory for a ship owner to have his ship classed but there would be considerable difficulties in trading if the ship were not, since it is often a condition of the ship's insurance and a requirement of most charterers and shippers. Classification societies also inspect and approve the construction of shipping containers. These organisations exist in most of the principal maritime countries. In order to maintain the classification status, our vessels undergo regular and ad hoc surveys by the qualified surveyors of the classification societies. These surveys include special surveys in every five years, intermediate surveys in approximately every two and a half years, annual surveys each year and ad hoc surveys following an accident or whenever necessary.

To maintain the classification status upon expiry of the five-year class period, the special survey required for class renewal has to be satisfactorily completed. As a special survey involves thorough vessel examination and is time-consuming, it may be split to be carried out over the five-year class period. Normally, a special survey will require the vessel to be dry docked for below waterline inspection, during which the vessel will generally be out of operation. An intermediate survey may also require the vessel to be dry docked, unless an alternative inspection has been requested by the ship owner and accepted by the relevant classification society taking into account the age and condition of the vessel. An annual survey can be carried out during loading and unloading of the vessel's cargoes.

Classification societies certify that a particular vessel has been built and maintained in compliance with their own rules and regulations and in compliance with the applicable laws and rules of the flag state as well as with international conventions which that flag state is a member of. These certifications are required as evidence of the seaworthiness of the vessel and class maintenance with the classification society. The due date of the next special survey in respect of each of our vessels as at the Latest Practicable Date is as follows:

<b>Vessel name</b>	<b>Due date of the next special survey</b>
Cape Warrior	13 June 2015
Courage	3 March 2014
Sea Pioneer	3 December 2013
Valour	15 February 2015
Bravery	31 March 2013
Raffles	3 September 2013
Heroic	18 September 2012
Panamax Leader	31 March 2013
Zorina	24 July 2013

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During the Track Record Period, as a pre-condition to the maintenance of classification certificates of the vessels, various performance tests, maintenance items and repair works were carried out on our vessels to the satisfaction of the surveyors as required by the class rules and regulations of Isthmus Bureau of Shipping, Bureau Veritas, International Register of Shipping and the China Corporation Register of Shipping.

Our personnel on shore and the crews on board undertake regular maintenance of our vessels. The captain on board is responsible for ensuring the proper maintenance of the engine and equipment. Our technical and ISM compliance officers provide training to senior crew officers on the ISM Code-based vessel operation procedures and other security measures. These senior crew officers are in turn responsible for the routine maintenance of different parts of the vessels.

During the repair and maintenance process, our technical team is stationed in the shipyard and is substantially involved in the process. Due to their experience in engineering and the shipping industry, our technical team is able to closely supervise, give on-site opinion regarding and promptly respond to the matters discovered during the repair and maintenance process.

Our executive Director, Chen Shin-Yung, is responsible for supervising all repairs and maintenance work on site and he has substantial experience in the area of repair and maintenance in the shipping industry. Our Deputy General Manager (Systems and Standard Compliance), Chiu Chi-Shun, is responsible for quality assurance and safety management of our fleet, and carrying out internal audit in order to comply with various international rules and regulations. Chiu Chi-Shun has extensive experience of over 25 years in surveying, auditing and inspection of vessels. See “Directors, senior management and staff” for details of their qualifications.

Our repair and maintenance service provider is approved by internationally recognised classification societies such as China Classification Society.

During the Track Record Period and as at the Latest Practicable Date, all of our existing and disposed vessels had successfully renewed and maintained their classification certificates with Isthmus Bureau of Shipping, Bureau Veritas, International Register of Shipping and China Corporation Register of Shipping, where applicable.

Our Directors believe that the maintenance of our vessels’ classification status with these international reputable classification societies as well as implementation of our maintenance policy can ensure that our fleet lives up to the international standards and is fit for shipping. In addition, as at the Latest Practicable Date, the average age of our vessels was approximately 26 years, which is higher than the average age of other vessels in the industry, and therefore our maintenance cost is also higher. For each of the three years ended 31 December 2010, our repair and regular maintenance expenses incurred were approximately US\$2 million, US\$1.9 million and US\$2 million respectively, representing approximately 5.9%, 6.5% and 5.8% of our cost of services respectively.

None of our vessels suffered from pirate attacks during the Track Record Period and as at the Latest Practicable Date. We have, in accordance with the ISM Code, adopted and implemented anti-pirate attack policies and procedures to minimize our chance of suffering from pirate attacks.

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### INSURANCE AND P&I

We seek to maintain comprehensive insurance coverage to protect us against risks related to physical damage to our vessels and vessel equipment as well as liabilities arising from accidents involved in our course of normal business operations. Our insurance policies are typically as follows:

#### **Hull and machinery insurance**

During the Track Record Period, we had maintained hull and machinery insurance and war risk insurance for each of our vessels whereby our vessels are insured against, inter alia, physical damage to the vessel's hull and machinery, maritime perils and war-related risks. These policies normally have a 12-month term subject to annual renewal. Our vessels are generally covered up to their respective market value, which will be reviewed as and when the insurance policies come to a renewal.

#### **P&I**

During the Track Record Period, we had maintained protection and indemnity insurance which covered for claims relating to our liabilities arising from, among others, the operation of our vessels; injury, illness or death to crew or other third parties, carriage of cargoes on the vessels, the collision between the vessels or the vessel with a fixed or moveable object, pollution arising from oil or other polluting substances and liabilities arising from the raising, removal, destruction or marking of the wreck of the vessels or vessel equipment, costs and expenses in respect of life salvage payable to third parties. The P&I is a mutual insurance which implies that should any P&I Association (of which we are a member) face special circumstances with unexpected losses, we, as a shipowner member of such P&I Association, may be exposed to premium obligations beyond the agreed total call. On the other hand, we are assured of access to the reinsurance arrangement as arranged by the International Group of P&I Associations. We did not receive any additional funding calls from the P&I Associations of which we are a member during the Track Record Period.

For each of the three years ended 31 December 2010, we incurred an aggregate of approximately US\$1.7 million, US\$1.6 million and US\$2.4 million as insurance (including P&I) premium and provision payment of its various insurance policies respectively, representing approximately 4.7%, 5.5% and 6.8% of our cost of services respectively.

Our Directors confirm that our insurance policy with the American Steamship Owners Mutual Protection and Indemnity Association ("American Club") is not a continuing connected transaction given Hsu Chih-Chien's directorship in the American Club, as Hsu Chih-Chien has no equity interest in the American Club. Save as disclosed in this document, we did not have any other outstanding material insurance claims as at the Latest Practicable Date.

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### EMPLOYEES

The following table sets forth the details of our full-time employees by division or function as at the Latest Practicable Date:–

Function	Number of Employees
Management	7
Finance/administration	5
Sales, marketing and operation	5
Technical	3
Safety and Systems Department	2
<b>Total</b>	<b>22</b>

We have engaged a PRC crewing agency company, Tianjin Cross-Ocean, to supply crew members to operate our vessels. See “Business – Crew agent” for details of Tianjin Cross-Ocean. As a result, we could maintain a small number of full-time employees, and our Directors believe that this enables us to maintain a relatively low administrative cost to correspond to our low cost operating structure.

### Staff training

During the Track Record Period, we provided both internal and external training courses in respect of the recent development of the shipping industry and international shipping regulations for our staff.

The internal training courses provided to our staff were free of charge and was presented by our senior or experienced staff members who have the relevant experience and qualifications in the training topics. During the Track Record Period, we offered internal courses on explaining the ISM Code to our staff.

Most of our training courses were presented by external organizations to our staff during the Track Record Period. Such topics included updates on the international shipping regulations and vessel operations organised by organisations including certain vessel inspection centres and regional governmental bodies.

### CREW AGENT

We engage a crew agency company, Tianjin Cross-Ocean, to supply crew members to operate our vessels. Tianjin Cross-Ocean, an Independent Third Party, is a PRC domestic-invested company and is principally engaged in the business of vessel crew supply and ship management. Vessel crew supply is regulated by the relevant PRC authority. The largest shareholder of Tianjin Cross-Ocean (“Tianjin Parent”) is a Chinese state-owned enterprise, which owns 41% of equity interest in Tianjin Cross-Ocean and is principally engaged in the field of international economic cooperation. Its predecessor

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is the Bureau of Economic Relations with Foreign Countries in Huabei Area, the PRC. The other registered shareholders of Tianjin Cross-Ocean are 12 individuals, each of whom holds between 2% to 13.5% equity interests in Tianjin Cross-Ocean. Tianjin Cross-Ocean has been supplying vessel crew for different shipping companies.

Tianjin Parent supplied crew members to our vessels during the period of 2001 and 2009. Our PRC legal advisers opined that Tianjin Parent had obtained all the necessary licenses and permits at the relevant time for the provision of crew services to us as required under the then applicable PRC laws and regulations. Due to the internal restructuring of Tianjin Parent pursuant to state reforms, Tianjin Cross-Ocean replaced Tianjin Parent as our crew agent, and therefore from 2009 onwards, Tianjin Cross-Ocean has been supplying crew members to us. Under our agreement with Tianjin Cross-Ocean, the crew members supplied by Tianjin Cross-Ocean to us are not designated to particular vessels, and different crew members may be assigned for each vessel voyage. In practice, senior ranked crew members (such as vessel captains) are often stationed in the same vessel for consecutive voyages and for a longer period of time. In 2010, five of our captains had worked at our vessels for three years or more.

The contract period of the crew agency agreement entered into between Tianjin Cross-Ocean and us in November 2009 is indefinite, which could be terminated by a two months notice given by either party. Tianjin Cross-Ocean shall supply crew members with necessary qualifications in accordance with applicable rules and regulations. We are responsible for the payrolls to the crew members and P&I insurance policy which covers such members' death and personal injuries occurred outside China.

To ensure that the crew members supplied by Tianjin Cross-Ocean are properly qualified and certified in accordance with the applicable codes, rules and regulations, each crew member must, before boarding our vessels, present to us a valid license as a qualified seaman issued by the relevant PRC governmental authority. In order to comply with the ISM Code, we do not allow any non-licensed crew member to work in our vessels. We provide on board training in respect of safety and management to the crew.

During the Track Record Period, and up to the Latest Practicable Date, we did not have any incident of non-compliance or breach of the relevant crewing requirements as prescribed under the relevant rules, regulations, codes and guidelines.

### License of Tianjin Cross-Ocean

During the Track Record Period and up to 17 May 2011 (the “**Relevant Period**”), Tianjin Cross-Ocean did not obtain a license called 船員服務機構許可證 (甲級) (the “**Relevant License**”) for their provision of crew agency services in the PRC as required under the PRC laws. Based on the information from our PRC legal advisers and Tianjin Cross-Ocean, our Directors understand that none of the crew agents in the PRC obtained the Relevant License during the Relevant Period.

In relation to the non-compliance of Tianjin Cross-Ocean during the Relevant Period, our PRC legal advisers opined that (i) we will not be subject to any legal liability on our engagement with Tianjin Cross-Ocean and (ii) our crew agency agreement with Tianjin Cross-Ocean might be held invalid unless the Relevant License is obtained.

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Tianjin Cross-Ocean obtained the Relevant License on 18 May 2011. The Relevant License will expire on 17 May 2016 subject to renewal. Going forward, our Directors will ensure that our crew agents will possess all licenses as required under the relevant laws.

### **The 2009 incident**

According to a report given by the then captain of MV Courage, in July 2009, when MV Courage was anchored at the waters within the territory of China, one of the crew members (“**Mr. Cui**”) felt unwell with symptoms of headache, high blood pressure, stomachache, vomit and low body temperature. The other crew members contacted a hospital for medical consultation, and as advised by the duty doctor of that hospital, Mr. Cui received some medications. Mr. Cui’s symptoms were relieved immediately after taking the medications, but felt unwell again a few hours after that. The captain immediately decided to send Mr. Cui to a nearby hospital for medical assistance. Unfortunately, Mr. Cui died after receiving medical treatment at the hospital. According to the death certificate of Mr. Cui issued by a PRC hospital, the cause of Mr. Cui’s death was unknown. The Directors confirm that there is no finding that Mr. Cui’s death was due to any fault of accident by any parties. Since Mr. Cui was an employee of Tianjin Cross-Ocean, Tianjin Cross-Ocean was responsible for handling the matters arising from the death of Mr. Cui.

Although Mr. Cui was not our employee, since Mr. Cui had been serving us for over 5 years and he was the breadwinner of his family, Tianjin Cross-Ocean and we decided to pay his family RMB200,000 and RMB600,000 respectively as exgratia payment. In August 2010, we received a receipt and release document from the family of Mr. Cui, which confirms their receipt of the payment of RMB800,000 and the complete settlement of the incident.

According to the legal opinion issued by our PRC lawyers, since Mr. Cui’s family have confirmed the complete settlement of the incident pursuant to the receipt and release document we received from Mr. Cui’s family, (i) such incident has been completely settled; and (ii) we will not be liable to any additional damages or bear any liabilities under the applicable PRC laws arising from the incident.

Our PRC legal advisers are of the opinion that we have no contractual or employment relationship with such crew members under the PRC laws, and we are not subject to any liabilities arising from the employment relationship between Tianjin Cross-Ocean and the crew members.

### **REGULATORY COMPLIANCE**

The ship owning and managing industry is highly regulated and our vessels must be operated within the rules, international conventions and regulations adopted by the IMO, including:–

- SOLAS Convention
- the International Convention for the Prevention of Pollution from Ships
- the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers

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- the ISM Code
- the International Ship and Port Facility Securities Code

For further information on the laws, regulations, rules, codes and guidelines concerning the safe management and operation of ships and for pollution prevention, see “Regulatory Overview”.

During the Track Record Period, we did not incur any specific cost of regulatory compliance, and we do not expect to incur such cost in the future. Instead, our safety management staff would be responsible for the regulatory compliance in accordance with the requirements of the ISM Codes and our Directors are of the view that such arrangement would be sufficient to ensure our regulatory compliance. Our Directors are of the view that we will continue to provide on-going staff training and updates in respect of the relevant laws, regulations and conventions in relation to the shipping industry and to have regular maintenance for our vessels in order to ensure our on-going compliance with the laws, regulations and conventions of each country and port our vessels visit.

Our Directors confirm that Panama, Taiwan and Hong Kong are the material jurisdictions in relation to our operation. Our Panama, Taiwan and Hong Kong legal counsels are of the opinion that we have obtained all the relevant licenses and permits as required for the operation of our business under the applicable laws and regulations in Panama, Taiwan and Hong Kong respectively, and comply with all relevant laws and regulations for the operation of our business in Panama, Taiwan and Hong Kong respectively. Our Directors confirm that we complied with all relevant laws, rules and regulations in relation to the operation of our business in all material respects during the Track Record Period.

## ENVIRONMENTAL PROTECTION

Our safety and environment policies are implemented through our current safety management system which complies with the requirements of the ISM Code. Each of our vessels has been issued and has maintained the relevant certificates issued by China Corporation Register of Shipping, Isthmus Bureau of Shipping and Bureau Veritas pursuant to the ISM Code for compliance with various requirements relating to prevention of air pollution, oil pollution and other kinds of marine pollution.

During the Track Record Period, we did not incur any specific cost of compliance with the applicable environmental rules and regulations, and we do not expect to incur such cost in the future. Instead, our safety management staff would be responsible for the compliance of our environmental policies in accordance with the requirements of the ISM Codes and our Directors are of the view that such arrangement would be sufficient to ensure our compliance with the applicable environmental rules and regulations.

As at the Latest Practicable Date, the average age of our vessels was approximately 26 years, which is significantly higher than the average age of other vessels in the industry. Older vessels might generally tend to emit more pollutants than younger vessels. In the event that there are more stringent environmental regulations on emission requirements, our Directors are of the view that our safety management team will endeavor to ensure our vessels will satisfy such requirements, and if necessary, we will acquire younger vessels to replace our older vessels to meet the relevant emission standards. Our Directors confirm that there was a change in the MARPOL (see “Regulatory Overview”



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for details) in 2010, which requires us to maintain records regarding the usage of ozone depleting substances on our vessels. To ensure our compliance with the new environmental regulations, we require our crew to maintain records regarding the injection of the ozone depleting substances into the refrigerators and air-conditioners installed on our vessels. We are not required to incur material costs to comply with the new regulations. As of the Latest Practicable Date, the Directors were not aware of any potential change in the environmental regulations.

Our Directors confirm that Panama, Taiwan and Hong Kong are the material jurisdictions in relation to our operation. According to the legal opinions issued by our Panama, Taiwan and Hong Kong legal counsels, we have complied with applicable environmental protection laws and regulations in Panama, Taiwan and Hong Kong respectively. Our Directors confirm that we have not committed any material breaches of the relevant environmental protection laws, rules and regulations during the Track Record Period.

### PROPERTIES

As at Latest Practicable Date, we owned Unit 1801 on 18th Floor of West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong as our principal office in Hong Kong. Part of such premises are leased to First US Capital for HK\$28,000 per month from 1 September 2010 to 30 August 2013.

We rent Unit B, 5th Floor, Transworld Commercial Center, No.2, Section 2 of Nanking East Road, Taipei, Republic of China as our principal office in Taiwan, at a monthly rental of approximately NT\$262,000 (equivalent to approximately US\$8,900) and the tenancy agreement will expire on 30 June 2011.

We also rented Room 1, Unit 19D, No.137, Xianxia Road, Changing District, Shanghai, the PRC for our representative office in Shanghai, at a monthly rental of approximately RMB5,900 (equivalent to approximately US\$800) plus US\$1,300, and the tenancy agreement will expire in December 2011.

In October 2010, we entered into the AIC-SP Agreement with Mr. Chang, pursuant to which we may be entitled to the ownership of the PRC Property upon completion in April 2011, subject to, as advised by our PRC legal adviser, fulfilment of certain conditions under the PRC law by the present legal title owner of the PRC Property and us, which include obtaining certain permits and approvals from the relevant PRC authorities. Mr. Chang and we further entered into the Supplemental AIC-SP Agreement where the Long Stop Date for fulfilment of the conditions for completion of the transfer of property interest under the AIC-SP Agreement was changed from April 2011 to March 2012. On the same date of signing the Supplemental AIC-SP Agreement, Wu Chao-Huan and Hsu Chih-Chien, our Directors and Controlling Shareholders, also signed a deed of indemnity in which they will jointly and severally indemnify us against losses, costs and expenses which we may suffer or incur as a result of default on the part of Mr. Chang to perform his obligations under the AIC-SP Agreement to the extent of the outstanding balance due from Mr. Chang. For further details regarding the background of such AIC-SP Agreement, please refer to the section headed “Business – Investment in Sunrise and AIC” of this document.

For further information on our properties, please refer to Appendix III to this document.



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### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we were the registered owner of two trademarks with the Hong Kong Trademark Office in Hong Kong. As our Directors believe that we can be easily identified and distinguished in the industry even without the trademark, our Directors consider that we are not necessary to register our trademarks in all jurisdictions where we operate. We were also the registered owner of the domain name of [www.couragemarine.com](http://www.couragemarine.com) as at the Latest Practicable Date.

For further information on our intellectual property rights, please refer to Appendix VI to this document.

### INVESTMENT IN SUNRISE AND AIC

We entered into a conditional sale and purchase agreement (the “**First Agreement**”) with (i) Mr. Chang; (ii) Sunrise; and (iii) certain existing shareholders of Sunrise in August 2007, pursuant to which we shall acquire and Mr. Chang shall procure Mio Corp., a company beneficially owned as to 80% by Mr. Chang, to sell 11,200,420 ordinary shares of NT\$10 each (the “**Purchased Shares**”), representing 25% of the issued share capital of Sunrise from Mio Corp. for a purchase price of approximately NT\$111 million (the “**Purchase Price**”). Upon completion of the First Agreement, AIC, as our nominee, was registered as the legal owner of the Purchased Shares.

As provided in the First Agreement, Mr. Chang granted a put option (“**Put Option**”) to us, to the effect that we could require Mr. Chang to buy from us and/or its nominees the Purchased Shares at the Purchase Price plus interest thereon at the rate of 6% per annum from the completion date of the Agreement within two years from August 2007.

Our Directors were of the view that the business of Sunrise did not perform as expected since completion of the First Agreement and we decided to exit from the investment and thus we served a put option notice to Mr. Chang in May 2009. Subsequently, Mr. Chang informed us that he encountered a short-term cash flow problem due to the financial crisis and proposed to settle the buy-back of the Purchased Shares through his interests in the PRC Property instead of cash and we accepted the said proposal and proceeded to enter into the AIC-SP Agreement. In October 2010, we entered into AIC-SP Agreement with Mr. Chang, pursuant to which we have agreed to transfer 100% of its shareholding in AIC, the legal owner of the Purchased Shares, to Mr. Chang in consideration of the transfer of the ownership of the PRC Property to us in April 2011, or if transfer of the ownership cannot be completed in April 2011 Mr. Chang has to immediately make a payment of approximately US\$3.8 million to us. It is also agreed that the risks and benefits in respect of the Purchased Shares shall be transferred to Mr. Chang with effect from the date of acceptance of the put option notice by Mr. Chang in July 2009. Mr. Chang and we further entered into the Supplemental AIC-SP Agreement where the Long Stop Date for fulfilment of the conditions for completion of the transfer of property interest under the AIC-SP Agreement is changed from April 2011 to March 2012. On the same date of signing the Supplemental AIC-SP Agreement, Wu Chao-Huan and Hsu Chih-Chien, our Directors and Controlling Shareholders, also signed a deed of indemnity in which they will jointly and severally indemnify us against losses, costs and expenses which we may suffer or incur as a result of default on the part of

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Mr. Chang to perform his obligations under the AIC-SP Agreement to the extent of the outstanding balance due from Mr. Chang. Following the exercise of the put option of Sunrise, our Group lost the power to participate in the financial and operating policy decisions of Sunrise. Our Group has equity accounted for Sunrise up to the date of Mr. Chang's acceptance of the put option notice. As a result of the above arrangement, a sum of US\$3,767,000 was recorded as deferred consideration under "Long term receivables/Other receivables" in our financial statements for the years ended 31 December 2009 and 2010.

### LEGAL PROCEEDINGS

We are exposed to liabilities and litigations in operating our vessels. During the Track Record Period and as at the Latest Practicable Date, we were involved in 11 settled and one unsettled or pending shipping incidents. The settlement amounts in three of the settled cases were below US\$100,000 and the Directors consider that such cases have no material effect on us. The details of the other settled and unsettled cases are set out below.

#### Settled cases

In June 2006, MV Midas, a vessel which was subsequently sold in 2007, loaded a cargo of cement in Indonesia destined for the United Arab Emirates. At the material time, MV Midas was operating under a time charter to Shun Shing Global FZE (the "Charterer"). The cargo was carried under a bill of lading in which Shun Shing Trading was named as shipper (the "Shipper"). On 17 July 2006, MV Midas suffered main engine damage while it is on the route to UAE. MV Midas was repaired and re-commenced its voyage on 21 September 2006 and was on-hire again. Under the charterparty, MV Midas was off-hire for 66 days in the meantime. MV Midas arrived Hamriya, UAE on 27 September 2006. It remained there in all respects ready to perform under the charterparty. The Charterer refused, despite our requests, to discharge the cargo or pay hire in accordance with the charterparty. On 10 November 2006, MV Midas was arrested by the Sharjah Court on the Shipper's application. On 7 July 2007, we provided security responding to the Shipper's alleged claim by way of a payment into court of a cash deposit of USD1,900,000. Following provision of security, MV Midas was released from arrest on 19 July 2007. MV Midas could not leave port as the cargo was still on board, and was not ours. On 21 November 2007, following our application to the Sharjah Court, the court declared that the cargo had been effectively abandoned by the person having interests in the cargo; MV Midas was therefore finally permitted to sail from the port of Hamriya, together with the cargo, and on 7 December 2007 it sailed from Hamriya. There then followed the hearing of the Shipper's claim against us, which resulted in a judgment against us. There were subsequently two appeals by us against the decisions of the Sharjah Courts in favour of the Shipper. The Courts found against us at First Instance, in the Court of Appeal and in the Court of Final Appeal, and the First Instance Judgment being upheld at each appeal. We could not appeal further from the Court of Final Appeal. The cash deposit paid by us was released to the Shipper in satisfaction of the judgment in their favour. We then claimed damages against the Charterer under the charterparty, which provided for English law and arbitration. An award was eventually published in September 2009, whereby we were awarded USD2,436,000 plus interest and costs. Despite demands being sent to the Charterers, the award remains unsatisfied as at the Latest Practicable Date. The Charterer seems to be an asset-free company and therefore the award remains unsatisfied. Given that the Charterer is aware of the

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award, the prospects of the award being satisfied are very low. In a further effort to make some form of recovery, we considered commencing arbitration proceedings against the Shipper. However, the merits of the claim against the Shipper under the bill of lading were not strong. In view of this, and that we had no security for their potential claim against the Shipper, and the difficulty in obtaining security, we decided that the prudent course of action would be to abandon any such claim, so that further legal costs were not expended unnecessarily. In this regard, there has been no further action since first quarter of 2009. Our Directors are of the view that it is unlikely that we would be able to make any form of recovery for the losses that were suffered by reason of this incident.

In August 2007, our vessel, MV Raffles, had a collision with a fishing boat in South Korea in the course of chartering and MV Raffles was detained by the Port State Control of South Korea for 0.5 days. We were fined by such authority for approximately US\$5,700. After making such fine payment, the case was settled in September 2008.

In October 2008, our vessel, MV Raffles, was grounding at Huang Pu Port in China due to typhoon. We filed a claim to our insurance company, and the case was settled in May 2010 after we had received a payment of approximately US\$238,000 from the insurance company.

In March 2009, the standard side main deck of our vessel, MV Raffles, was damaged by stevedores in Singapore. We filed a claim to our insurance company, and the case was settled in December 2009 after we had received a payment of approximately US\$129,000 from the insurance company.

In May 2009, our vessel, MV Sea Pioneer, caused damage to underwater cables of Telekom Malaysia in Malaysia. The case was settled in August 2010 after a payment was paid to Telekom Malaysia. The settlement amount was approximately US\$230,000, in which US\$200,000 was paid by P&I Club of South of England and the remaining US\$30,000 was paid by us.

In August 2009, our vessel, MV Bravery, was grounding at the An Ping Out Port of Taiwan due to bad weather condition. We filed a claim to our insurance company, and the case was settled in December 2010 after we had received a payment of approximately US\$1.3 million from the insurance company.

In December 2010, the cargoes being transported by our vessel, MV Valour, were damaged during their discharge in Korea. The owner of the cargoes filed a claim against us and MV Valour was detained for 49 days because of that. In February 2011, this case was settled and we paid the owner of the cargoes a settlement payment of approximately US\$223,000 and an insurance deductible payment of approximately US\$50,000.

In September 2004, our vessel, MV New Hope II, had a collision with another vessel at Hong Kong Out Port as MV New Hope II was run smack into by such vessel. We filed a claim with the amount of approximately US\$135,000 against such vessel in September 2004. Following our acceptance of the settlement with the settlement amount of approximately US\$135,000 on 13 May 2011, such case was settled accordingly. The pre-determined insurance deductible amount was US\$30,000 according to our insurance policy. The Directors confirm that the collision would not have any material impact on our compliance with the applicable shipping rules and regulations.

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Regarding the above settled cases which we were claimed by others during the Track Record Period, the settlement payments were covered by our insurance policy and we only had to pay a pre-determined deductible amount to the insurance companies. As a result, the total financial losses in relation to the above settled cases during the Track Record Period, which mainly comprised insurance deductible amount and the settlement payment in the MV Valour case occurred in December 2010, was approximately US\$383,700.

### **Unsettled and pending case**

In July 2010, our vessel, MV Heroic, had a collision with another vessel at Chang Jiang Kou Bai Chao Channel as both vessels ran too close to each other. A claim against us is being handled at Shanghai Maritime Court of the PRC and the issue in liability and quantum was not yet been determined as the Latest Practicable Date. We have paid insurance excess of US\$50,000 to our P & I Insurance Company, The American Club, and they have agreed to fully indemnify us. In the event that the result of the judgment is unfavourable to us, we have to pay another insurance excess of US\$60,000 under Hull & Machinery Insurance and the rest of the claim amount would be covered by such insurance policy. The Directors confirm that the collision would not have any material impact on our compliance with the applicable shipping rules and regulation.

The potential maximum exposure related to the above unsettled and pending legal proceedings to us is approximately US\$110,000, of which, US\$50,000 has been paid. In the event that we are held liable to the accidents, the settlement payments to be paid by us will be fully covered by our insurance policy except that we only have to pay a pre-determined deductible amount to the insurance companies and such minimal amount is unlikely to have a material impact against our financial position. In this connection, our Directors and the Sole Sponsor are of the opinion that we do not need to make provision regarding the unsettled case during the Track Record Period.

### **COMPETITION**

The dry bulk shipping industry is highly competitive and fragmented with many vessels owners and operators. We face competition from both large and small participants in the industry. Our competitors may have a smaller fleet than we do, and hence with less capacity or flexibility to meet customer requirements, may nevertheless compete with us through lower pricing. On the other hand, our larger competitors, with their greater fleet capacity and optimal fleet composition, may have more opportunities to gain market share than we do.

The Group also faces competitions from international shipping companies which can offer wider ports or route coverage and larger fleet size that may keep their market presence at major ports from time to time. With the increasing global supply of vessel chartering capacity, our Directors are of the view that the competition in our industry will intensify in the future.

Generally, we compete with our competitors in terms of, among others, charter hire, charter terms, quality of the vessels, customer service, vessel availability, service reliability, port coverage and value added services. Despite the intense competitions faced by us in the dry bulk shipping industry, our Directors believe that generally we are able to maintain our competitiveness in the industry through (i) our low cost operating structure enables us to offer competitive freight rates to charterers; and (ii) our experienced management team which could adopt suitable strategies to cater for market challenges and risks. See “Risk factors – We operate at a highly competitive industry” of this document for further information in relation to the competitive environment in the industry.