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8 August 2005

**To: Director and Manager of the Stock Exchange of Thailand**

**Subject: 2<sup>nd</sup> Quarter Management Discussion and Analysis (MD & A)**

**THE RESULTS** in Thai Baht, reviewed by Ernst & Young, as well as US Dollars, certified by Baker Tilly, show you the latest financial position of the Company. The net profit for Q2 2005 was a staggering USD 43.92 million! If we were to strip out the FX loss and the gain from sale of investments, then the 'shipping operational' results in Q2 were identical to those in Q1 despite the massive decline in the BDI during the same period. The earnings per day per ship during Q2 at USD 15,638 were a direct result of our hedging strategy and saved us from the more than 45% fall recorded in the BDI during Q2. In this quarter, daily operating costs were USD 2,973 but this figure is expected to be around USD 2,825 to 2,850 for the year as a whole. The net operating profit has increased mainly due to an increase in earnings per day per ship along with an increase in Vessel operating days during Q2 2005 (4,732 days) as compared to Q2 2004 (4,064 days). The EBITDA has increased by over 150% during the period under comparison. The earnings per share (eps) in Thai Baht stood at 3.12 Baht per share for this quarter. The eps for this quarter is almost twice (180%) the number for Q2 of 2004 and greater than the entire eps for the year 2003!

THE HARD FACTS	Q2, 2005	Q2, 2004
Highest Earnings per day per ship in USD	29,236	21,202
Average Earnings per day per ship in USD	15,638	12,553
Operating cost per day per ship in USD	2,973	2,647
EBITDA in million USD	55.20	36.32
Net Profit/(Loss) in million USD (including exchange Gain (loss)) before Extraordinary items	43.92	27.70
Net Profit/(Loss) in million USD	43.92	27.70
Earnings Per Share in Thai Baht	3.12	1.72

**PROSPECTS** over the next 12 months still look good compared to long term historical averages but no where near the levels that we have seen over the last 6 or so quarters. In the current freight cycle, the low point in daily earnings on our ships was reached in Q2 2002 at USD 5,497. The high point was achieved in Q1 2005 at USD 15,928 per day per ship. Going forward we can see that daily rates could easily fluctuate between USD 8,000 and USD 16,000 per day per ship over the next few years.

**SHORT TERM VERSUS LONG TERM CHARTERS:** The long term charters already booked for 2005 comprise about 70% of our existing capacity based on an annual average of 53 ships at a healthy average rate in excess of USD 15,600 per day per ship. Since we calculate 15 days down time per year per ship it means that we have only about 25% of additional capacity left to be fixed for this year, having already fixed 70% on longer term contracts. Though we have faith that the freight markets are going to continue to remain fairly strong for the foreseeable future we felt it prudent to 'lock-in' some of these very high charter rates and have a steady guaranteed source of income for 2005 whilst avoiding the pitfalls of the spot market. This strategy would also allow us to lock in rates when ever the markets are at their high points by putting away the spot ships, and those where the shorter term time charters have expired, on to longer term, time charters, at healthy rates. This policy, which was very successfully employed in 2004, has stood us in good stead during 2005 from the vagaries of the spot market as can be seen by the healthy numbers produced for Q2 2005 despite the dramatic fall in the BDI during that quarter.

**THE CHINA FACTOR** continues to roll along having a disproportionate impact on the dry bulk markets. Just to give you a flavour of what this means we quote from the 7<sup>th</sup> July 2005 issue of Fairplay, the International Shipping Weekly.

“As the world of commerce digests the latest Chinese Steel production figures, up 28% from last year, what next? Macquarie Research suggests that by 2010 it (China) will be manufacturing nearly half the world's current capacity at nearly 500 million tonnes. Since, as a rule of thumb, it takes two tonnes of iron ore and one tonne of coal to produce one tonne of steel, Chinese imports are looking phenomenal. By 2010, Macquarie estimates seaborne trade in iron ore associated with China will reach 453 million tonnes. That's about seven cape size bulkers arriving in China every day of the year. So should anyone, worried that there will not be enough ships to go around, be instead asking: will there be enough harbour pilots and tugs?”

**The Fleet Rejuvenation** program has begun with the acquisition of the 53<sup>rd</sup> and 54<sup>th</sup> ship in Q2 of 2005. To reduce the average age of our fleet and, if possible, gradually increase the fleet strength whilst minimizing the associated risks of such a strategy, we will try and purchase young ships whilst disposing off our older units. These two 'new' additions are just 8.5 years old and come with attached contracts in excess of USD 19,300 per day per ship till almost the end of 2005.

**The Marine Money** issue dated June 2005 ranked PSL as the 6<sup>th</sup> best shipping company in the whole world including giants like Frontline, Teekay etc! The methodology used by Marine Money for their rankings was a simple aggregate of 6 criteria: Total return to shareholders, Asset turnover, Profit margin, Return on Equity, Return on Assets and Price to book value. We got hurt in the Total return to shareholders criteria where we were ranked 57<sup>th</sup> due to the poor performance of the Thai stock market in which we are listed. Despite this poor showing on one out of the six categories we had an aggregate score of just 99 points as compared to the

best company at 69 points. We were, as expected, the highest ranked Thai shipping company in that list. A copy of the Marine Money certificate is attached herewith.

**The Engine of Growth SET Awards 2005** saw PSL nominated for the Best Performance award to three listed companies in each of the eight industry groups with the best financial status and performance in 2004. Though we did not win the award, the nomination was an acknowledgement of the great value that is stored in PSL. This event took place at the Queen Sirikit National Convention Centre in Bangkok on the 18<sup>th</sup> July 2005.

**SHIP SCRAPPING** has come to a halt. In Q2 2005 only 3 ships were scrapped whilst a total of 14 ships were added resulting in the fleet growing from 3,048 ships at the beginning of the quarter to 3,059 by the end of Q2 or an increase of 0.36% in the world fleet in our sector in this quarter. If the freight markets remain as buoyant as they are, we expect the world fleet in our sector will continue to grow at about this rate for the rest of the year.

Sincerely,

Khalid Hashim