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3 August 2015

To : The President of the Stock Exchange of Thailand

Subject : The 2nd Quarter of 2015 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for Q2, 2015 was USD 12.03 million which compares with a net loss of USD 1.62 million in Q2 2014. The average earnings, per day per ship during Q2 2015, were USD 5,757 compared with the USD 8,687 in Q2 2014. The average operating expenses, per day per ship, were USD 4,625 in Q2 2015 which is marginally above our target of USD 4,600, compared to USD 4,769 in Q2 2014 (including depreciation/amortisation of the Drydocking/Special Survey expenses in both periods.) The loss per share (eps) in Thai Baht for Q2 2015 amounted to Baht 0.35 per share versus a loss of Baht 0.05 per share in Q2 2014. To keep our results in perspective, please take a look at the results declared by other shipping companies which we have compiled in a different section of this letter.

THE HARD FACTS	Q2, 2015	Q2, 2014
Highest Earnings per day per ship in USD	15,000	16,207
Average Earnings per day per ship in USD (Handy Size)	5,575	8,054
Average Earnings per day per ship in USD (Supramax)	6,515	10,882
Operating cost per day per ship in USD	4,625	4,769
EBITDA in million USD	1.82	11.20
Net Profit/(Loss) in million USD (excluding Exchange gains (losses) and Gains (Losses) on sales of vessel)	(10.70)	(1.62)
Net Profit/(Loss) in million USD	(12.03)	(1.62)
Earnings(Loss) Per Share in Thai Baht (excluding Exchange gains (losses) and Gains (Losses) on sales of vessel)	(0.31)	(0.05)
Earnings (Loss) Per Share in Thai Baht	(0.35)	(0.05)

Market Segmentation: During Q2, the Baltic Handy Size Index (BHSI) averaged 346 points derived from the average Time Charter (TC) rate of USD 5,123. Compared to that, our Handies earned USD 5,575 and beat the BHSI TC rate by 8.8%. During Q2, the Baltic Supramax Index (BSI) averaged 647 points derived from the average Time Charter (TC) rate of USD 6,767. Compared to that, our Supramaxes earned USD 6,515 and underperformed the BSI TC rate by 3.7%. Our target has been to outperform both the indexes.

The Fleet Rejuvenation Plan has progressed well with 45 ships in the water. Another 23 brand new ships are due during the next 12 months (22 X 64K Ultras and 1 X 38K Handy.) We also plan to dispose of the older ships in our fleet over this same time frame.

The next SET Opportunity Day will be held at the SET building at 10.10 hours on the 11th August 2015 where we will be presenting and discussing our Q2 results. For those of you who cannot attend physically, the SET webcasts the Opportunity Day presentation live, giving you a chance to be present via the web.

LONG TERM VERSUS SHORT TERM CHARTERS: As can be seen, our current and forward four year (2015 to 2019) rolling book as at the end of Q2 2015 is at the 10.8% level with a visible revenue stream of USD 167.36 million.

Year	2015	2016	2017	2018	2019
Total Available Days	17,651	24,275	24,820	24,820	24,820
Fixed T/C Days	2,641	2,562	2,555	2,240	2,190
%age Fixed T/C Days	15%	11%	10%	9%	9%
Av. T/C Rate/Day in USD	13,548	13,713	13,713	13,849	13,875
Contract value in USD	$35.78	$35.13	$35.04	$31.02	$30.39

As the BDI currently is at fairly low levels we will have to wait out the current period before fixing ships on longer term charters once the BDI moves in an upward direction.

BDI Developments:

The El Nino weather phenomenon, which wreaks havoc on global crops, is set to disrupt shipping patterns and raise freight costs, leaving suppliers and importers to cover their food needs from longer-haul destinations. Weather forecasters confirm El Nino has returned for the first time in five years. During previous El Nino patterns, the main sea freight index at London's Baltic Exchange has risen significantly. In February 2009 when El Nino appeared, the BDI was at 1,099 and it reached 2,998 in March 2010 before the phenomenon abated. From March 2006 to February 2007, the BDI went from 2,708 to 4,765. (Reuters)

Scorching temperatures linked to the El Niño weather system have increased thermal coal demand in south Asian countries. High temperatures add to power requirements and are causing a loss of hydropower. (Braemar ACM Research)

The Baltic Dry Index has started to reach heights ship owners had forgotten even existed. As of drafting this letter, the BDI had touched almost 1,100 points and you could see the worry lines on the forehead of ship owners start to be replaced by a smile. There has, however, been no surge in demand to justify the current strengthening of rates, yet at least 20.5m DWT of dry bulk ships have been scrapped in the FH of this year. New orders are hovering near zero levels. All existing orders are being delayed due to financial pressure either on the buyers or at the ship yard level. Many orders for 2016 have been converted into Tankers and/or Container ships. All of this has helped reduce the pressure from the Supply side of the equation and as a result, the negative sentiment has started to disappear from the market. This is what has really changed and has resulted in a spike in the BDI led by the cape sizes where scrapping has resulted in a negative growth in the overall supply of ships in this sector. So long as these factors hold, we should see the current market rally being sustained.

Key Demand Developments:

PROSPECTS over the next 12 months can be better understood if one were to examine the macro environment. We have given you a selection of such information from various publicly available sources.

Brazil

Surging Brazilian Soya bean shipments are probably the most significant factor supporting the recovering Panamax market in the Atlantic. Monthly shipments in June reached an all-time high of 9.8 MMT and confirmed the trend towards a later seasonal surge in Brazilian shipments. Overall levels of congestion for the year to date remain modestly below last year, but delays have increased modestly and in June exceeded 2014 levels year-on-year. (Howe Robinson Research)

India

Instead of bickering about cost-sharing with the railways ministry, the roads ministry will invest around Rs.10,000 Crore in two years to build bridges over railway tracks and roads that go under them, two roads ministry officials said. (Live Mint)

The number of urban dwellers in India is expected to double to more than 800 million by 2050, a scale of mass urbanization only seen before in China. Ahead of Modi’s election last May, he vowed to construct 100 ‘smart’ cities by 2022, an infrastructure project some estimate would cost USD 1 trillion. (Reuters)

The infrastructure push provided by the finance minister of India in the Union Budget with the construction of another 100,000 km of roads and six million houses (by 2022) would definitely boost steel requirement. (Business Standard)

We expect India to import in excess of 240 MMT of Coal in 2015. We now reckon most of the country's imports will have occurred in the first half of the year, slowing in the second half. (Braemar ACM Research)

Indonesia

Indonesia's President could be forced to backtrack on promises to curb rice imports, with analysts saying the country may ship in as much as 1.6 MMT of the staple grain this year due to soaring prices at home and the threat of a strong El Nino. (Reuters)

Indonesia's government is discussing legal avenues to allow a resumption of bauxite exports to help kick-start stalled smelter projects, top officials said, as Southeast Asia's largest economy tries to promote infrastructure development. Indonesia's bauxite exports fell to 2.1 MMT in calendar 2014 from 55.6 MMT in 2013, when they were worth $1.3 billion to the country's economy. (Reuters)

China

China's coal imports in FH 2015 reached 99.87 MMT, according to data from their customs authority, for an annualized total of 199.74 MMT compared to the 291.63 MMT in 2014, confirming the slowing trend that had started last year.

China's imports of iron ore marginally eased to 453.11 MMT in FH 2015 (457.37 in FH 2014), according to data from China's customs authority. Annualized, the total would result in 906.22 MMT, marginally lower than the 933.11 MMT of iron ore imported in 2014 into China.

China's Steel production in FH 2015 reached 407.83 MMT or an annualized total of 815.65 MMT compared to the 813.30 MMT in 2014, once again, confirming marginal growth.

China's Steel exports in FH 2015 reached 52.41 MMT or an annualized total of 104.82 MMT compared to the 93.79 MMT in 2014, confirming the slowing economic trend in China resulting in even larger exports of Steel.

While dry bulk trade also benefits from GDP growth, a heavy reliance on Chinese coal and iron ore imports from Brazil and Australia has left the bulk carrier market dangerously exposed to the slower pace of Chinese economic growth. Chinese steel production has softened as the Chinese economy continues to focus away from domestic infrastructure projects and exports towards local consumption and services. Meanwhile, the construction of large dams on Chinese rivers and new nuclear capacity has diverted energy demand away from coal power stations. Overcapacity currently stands at around 16% for Capes. Heavy scrapping since the beginning of this year, as well as the switching of new building contracts from bulkers to tankers has shown the path to recovery, but by most measures it will be a long one. (Braemar ACM Research)

China aims to cut coal consumption by over 80 MMT by 2017 and more than 160 MMT by 2020. China's annual coal consumption, at about 3.7 BMT, accounts for roughly 66 percent of its energy demand. Besides generating climate-warming greenhouse gases, it is a major cause of the hazardous smog that frequently shrouds cities such as Beijing and Shanghai. (Reuters)

China imported 16.6 MMT of coal in June, a 16.5% increase from May. Weak hydroelectric power output has helped to support coal demand. However, this is still 34% lower than June 2014 and H1 2015 total imports of 99.9 MMT are 38% below H1 2014. (Braemar ACM Research)

China, the world's top soya buyer, is forecast to import a record 77 MMT of the oilseed in 2015/16, a rise of 5.5% from the previous year. China's own soya output for the year starting October is estimated to fall 9.5% on year to 11 MMT. Chinese farmers have cut soya planting areas and shifted to grow corn and rice instead. China imports over 60% of global-traded soyabean from Brazil, U.S and Argentina. Growing demand for meat has driven the country's imports of the oilseed, which is crushed into soyameal, a feed ingredient and edible oil. (Reuters)

China, the world’s top buyer of sorghum, could import more than 9 MMT of the grain in 2014/15, a record volume and more than double the amount in the previous year. (Reuters)

China took 7.8 MMT of nickel ore and bauxite combined in April, just short of seasonal highs in July and August last year double the combined total for April 2014. Almost all the nickel ore was sourced from the Philippines, and Malaysia has over taken Australia as the biggest bauxite supplier to China at over 2 MMT compared to 1.6 MMT for Australia. These figures suggest that Chinese domestic inventories of these key commodities might finally be starting to deplete, pointing to decent and increasing volumes during the months ahead. Another interesting development here is that Brazil exported 160KMT to China in March and 230KMT in April. In 2013 and 2014 Brazil only exported 0.7 MMT and 0.6 MMT respectively for the entire year. (Arrow Research)

China's National Development and Reform Commission announced at the end of May a list of 1,043 new construction projects that would require approximately 2 trillion Yuan ($322 billion) in funding. The government is targeting private investors to help fund, construct, and operate the projects. Going the private funding route remains a very different approach than government-backed funding seen in years past, and it remains to be seen if the very large funding target will be met to build all of the projects.

Nevertheless, last week's plans are incredibly ambitious and cannot be overlooked. Just two weeks ago, the government announced $250 billion Yuan ($40 billion) worth of railway and subway projects. (COSCO Steel & Coal Newsletter)

China imported 4.7 MMT of bauxite in April with 2.1 MMT sourced from Malaysia, which overtook Australia as the top exporter to China. Both cheaper bauxite (Malaysian bauxite has been $10-11/T cheaper than Australian bauxite) and lower freight have made Malaysian product more appealing to buyers. Imports from Malaysia have grown rapidly from almost nothing a year ago, and will partly compensate for lost supply from Indonesia due to the export ban. (Braemar ACM Research)

China is in the late stages of constructing its thirteenth five-year plan. At its centre will be a shift of emphasis away from trade with the advanced nations, whose prospects are bound to subside towards their level of economic growth. Instead, to maintain the long-term objective of 7% growth in GDP China will turn her attention to improving Asia's infrastructure, a policy for which the building-blocks are now in place. The Silk Road Project is advancing from the drawing board, and the Chinese-led Asian Infrastructure Investment Bank (AIIB), which will arrange finance for projects totalling as much as $20 trillion over the next thirty years, was formally established this year. (From an article by GoldMoney's Head of Research, Alasdair Macleod)

China exported a record 10.3 MMT of Steel in Jan and shipments in the first five months of the year were 28% higher than the same period in 2014. The country ships out more steel than any other single country produces, according to data from the World Steel Association. Excess capacity may get absorbed through the country's plan to build transport and infrastructure projects stretching as far as Europe under its "One Belt, One Road" initiative. Investments in railways, pipelines and power stations may generate demand for 272 MMT of steel through 2020. (Bloomberg)

Key Supply Developments:

Ben Trimmel of Clarksons Research said in a report: "Bulk carrier earnings in the first half of 2015 are on course to hit the lowest half-yearly level so far this century, due to limited trade growth and chronic oversupply in the fleet." (TradeWinds)

Significant scrapping will be the key if net fleet growth is going to be kept to a minimum in 2015. April was an encouraging month with 51 deliveries (5 Capes 2 Post Panamax 13 Panamax 14 Supramax and 17 Handysize) being matched by 50 deletions (12 Capes 1 Post Panamax 10 Panamax 8 Supramax and 19 Handysize) resulting in monthly net fleet growth falling into negative territory for the first time since December 2002!! (Howe Robinson Research)

The age of bulkers scrapped also shows an interesting dynamic. In 1H15, the average age of bulkers sold for demo fell to 24.9 years old from 27.2 in 2014, and the average Cape scrapped fell to 20.7 years. The recycling of younger units has been driven by depressed earnings and the relatively youthful age profile of the fleet; today 79% of bulkers are less than 15 years old compared to about 50% ten years ago. (Clarksons Research)

The Dry Cargo order book for 2015 has shrunk by 7m since January and with 3m of cancellations and 4m DWT slipping into 2016. With a further 4m cancelled on the forward order book and over 3m of Dry Bulk switched into Tankers, new ordering for the year to date (96 vessels of 7m) balances the amount of cancellations/switches, so the Dry Cargo forward order book should now start to shrink. In the first 5 months of 2015, 302 bulk carriers have delivered and 256 deleted; thus, net fleet growth is 46 vessels of 4.6m. (Howe Robinson Research)

Supply Side developments in the world bulker fleet makes for interesting reading. We started 2015 with 770.34 MDWT and have increased to 777.04 MDWT by the end of H1 for a 0.87% net fleet growth. A further 7.0% (53.96 MDWT) is scheduled for delivery in the balance of 2015 and another 8.73% (67.23 MDWT) scheduled for delivery in 2016. If we were to apply a slippage factor of 40% to these scheduled deliveries and further assume that scrapping reaches 36 MDWT per annum we would be left with a net fleet growth of 3.03% (793.67 MDWT) in 2015 and another 2.18% (810.96 MDWT) in 2016. Net fleet growth is increasing, but marginally, compared to the recent past.

Yours Sincerely,

Precious Shipping Public Company Limited

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Khalid Hashim
Managing Director