



FERRIER HODGSON

FINANCIAL RESTRUCTURING & CORPORATE RECOVERY

Precious Shipping Public Company Limited

USD Restatement Report for Six Months Ended 30th June 2001

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NOTICE TO ALL RECIPIENTS

SCOPE OF WORK

Ferrier Hodgson Limited (“FH”) has not performed an audit examination of Precious Shipping Public Company Limited’s (“PSL” or “the Company”) accounts or of the management information, nor has FH verified the underlying transactions. Therefore, FH give no opinion on the financial statements. This is only a restatement of the THB audited financial statements into USD.

In no event shall FH be liable for any loss liability, cost, damage or expense arising in any way from fraudulent acts, misrepresentation or wilful default on the part of the Company, its directors, employees, or agents.

The Report has been prepared for the use of the Company, its creditors, legal and financial advisors. FH does not accept any responsibility or liability to other parties.

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1. EXECUTIVE SUMMARY

Precious Shipping Public Company Limited (“PSL” or “the Company”) on 20 July 2000 engaged Ferrier Hodgson Limited (“FH”) to prepare a quarterly report on the restatement of the THB audited / reviewed consolidated financial statements into USD, prepared by the Company. The engagement includes a review of the Company’s mathematical calculation and the basis of USD restatement of both the balance sheet and income statement on behalf of the lenders who are party to the Inter-Creditor Deed.

Accordingly, FH attach a summary of the basis of the restatement of the THB financial statements into USD as Appendix 2.

FH has undertaken to report on its review of the restated USD consolidated financial statements for the six-month period ended 30th June 2001. In undertaking the above, FH were accorded the full assistance and co-operation of the PSL staff and management.

The restated USD Balance Sheet as at 30th June 2001 indicates that the total assets and liabilities of PSL were USD 222 million and USD 133 million, respectively. The equity of PSL as at 30th June 2001 was therefore USD 89 million.

In relation to the income statement, PSL’s total revenues and expenses for the six months ended 30th June 2001 were USD 52.8 million and USD 49.3 million, respectively. Net income, after including the extraordinary item incurred from the gain on redemption of Redeemable Convertible Debentures totalling USD 2.6 million, equals USD 6.4 million. The retained earnings at the end of the period stood at USD 8.3 million.



2. FINANCIAL STATEMENTS

Table 1: Consolidated Balance Sheet as at 30th June 2001 – Assets

ASSETS	31/3/01		30/6/01	
	THB	USD	THB	USD
Current assets				
Cash on hand & at banks	195,249,542	4,375,575	376,353,798	8,336,334
Accounts receivable – trade - net	201,563,559	4,517,073	119,651,828	2,650,319
Bunker oil	72,284,081	1,619,898	63,313,793	1,402,417
Other current assets	222,485,726	4,985,943	225,072,594	4,985,416
<i>Total current assets</i>	<i>691,582,908</i>	<i>15,498,489</i>	<i>784,392,013</i>	<i>17,374,486</i>
Investment in associated companies	174,089,452	4,083,571	181,505,734	4,219,771
Fixed assets at cost				
Vessels & Vessels Equipment	8,274,657,642	318,329,127	8,193,955,961	315,126,679
Office equipment	25,672,239	736,945	25,672,239	732,773
Barge & equipment	51,741,078	2,029,062	51,741,078	2,029,062
Leasehold improvement	2,528,880	56,673	2,773,880	61,442
Vehicles	34,223,843	1,118,967	14,196,115	338,699
Buildings & improvement	204,778,066	8,030,512	195,778,071	7,677,571
Furniture & fixtures	21,120,325	473,310	21,130,363	468,043
Plant equipment	141,239,942	5,538,821	122,920,037	4,820,394
<i>Total</i>	<i>8,755,962,015</i>	<i>336,313,417</i>	<i>8,628,167,744</i>	<i>331,254,663</i>
Less: Accumulated depreciation	(3,418,708,536)	(134,119,155)	(3,488,046,767)	(136,726,801)
<i>Total Fixed assets - net</i>	<i>5,337,253,479</i>	<i>202,194,262</i>	<i>5,140,120,977</i>	<i>194,527,862</i>
Other assets				
Unamortised drydock & special survey	228,234,414	5,434,733	218,178,007	5,266,365
Other assets – net	13,414,760	300,627	11,881,088	263,169
<i>Total other assets</i>	<i>241,649,174</i>	<i>5,735,360</i>	<i>230,059,095</i>	<i>5,529,534</i>
Goodwill	10,001,640	392,221	9,832,120	385,573
<i>Total assets</i>	<i>6,454,576,653</i>	<i>227,903,903</i>	<i>6,345,909,939</i>	<i>222,037,226</i>



Table 2: Consolidated Balance Sheet as at 30th June 2001 – Liabilities & Equity

LIABILITIES & EQUITY	31/3/01		30/6/01	
	THB	USD	THB	USD
Liabilities				
Current liabilities				
Payable to a related company	13,338,175	296,915	5,782,039	127,465
Account payables	158,891,228	3,537,008	115,817,843	2,553,208
Current portion of long-term loan	778,611,474	17,332,327	691,731,626	15,249,244
Freight / hire received in advance	90,787,038	2,020,970	134,429,173	2,963,495
Interest payable	4,908,436	109,265	7,424,315	163,669
Other current liabilities	248,562,630	5,533,143	219,734,959	4,844,064
<i>Total current liabilities</i>	<i>1,295,098,981</i>	<i>28,829,628</i>	<i>1,174,919,955</i>	<i>25,901,145</i>
Redeemable convertible debentures	770,254,057	17,146,287	795,535,559	17,537,604
Long-term liabilities – net	4,186,062,140	93,184,087	4,065,209,404	89,617,660
<i>Total liabilities</i>	<i>6,251,415,178</i>	<i>139,160,002</i>	<i>6,035,664,918</i>	<i>133,056,409</i>
Minority interest	54,788,548	1,219,624	51,320,454	1,131,361
Shareholders' Equity				
Share capital – issued and paid-up	520,000,000	20,392,157	520,000,000	20,392,157
Cumulative translation adjustment	140,916,397	4,549,406	144,796,706	4,691,572
Share premium	926,054,829	36,315,876	926,054,829	36,315,876
Unrealised gain on redeemable convertible debenture	673,791,794	14,998,983	548,955,837	12,101,747
Reserve fund	60,500,000	2,372,549	60,500,000	2,372,549
Legal reserve - subsidiary companies	77,465,999	2,856,051	77,465,999	2,856,051
General reserve	24,181,905	800,153	24,181,905	800,153
Retained Earnings	(2,274,537,997)	5,239,102	(2,043,030,709)	8,319,351
<i>Total Shareholders' Equity</i>	<i>203,161,475</i>	<i>88,743,901</i>	<i>310,245,021</i>	<i>88,980,817</i>
<i>Total Liabilities & Shareholders' Equity</i>	<i>6,454,576,653</i>	<i>227,903,903</i>	<i>6,345,909,939</i>	<i>222,037,226</i>



Table 3: Consolidated Income Statement for Six Months Ended 30th June 2001

Consolidated Income Statement	3 Months to 31/3/01		Second Quarter		6 Months to 30/6/01	
	THB	USD	THB	USD	THB	USD
Revenues						
Vessel operating income	1,030,890,111	24,027,999	1,152,297,533	25,664,099	2,183,187,644	49,692,098
Service income	7,944,299	185,166	7,802,563	173,779	15,746,862	358,945
Gain on exchange rate	-	1,957,584	-	543,286	-	2,500,870
Equity in net income of associated company	-	-	5,729,663	127,612	5,729,663	127,612
Interest income	2,840,507	66,207	1,855,919	41,335	4,696,426	107,542
Other income	1,174,363	27,372	768,442	17,115	1,942,805	44,487
<i>Total revenues</i>	<i>1,042,849,280</i>	<i>26,264,328</i>	<i>1,168,454,120</i>	<i>26,567,226</i>	<i>2,211,303,400</i>	<i>52,831,554</i>
Costs and Expenses						
Vessel operating costs	595,175,595	13,979,217	677,986,396	15,227,540	1,273,161,991	29,206,757
Cost for service	15,890,181	370,369	15,971,824	355,726	31,862,005	726,095
Administrative expenses	40,807,655	951,145	55,863,713	1,244,203	96,671,368	2,195,348
Doubtful accounts	57,300,064	1,335,550	15,308,879	340,961	72,608,943	1,676,511
Unrealised loss/(gain) on short-term investment	(3,433)	(80)	3,433	76	-	(4)
Exchange loss	111,007,644	-	30,135,565	-	141,143,209	-
Depreciation	142,384,463	5,513,574	139,502,649	5,381,774	281,887,112	10,895,348
Loss on sale of fixed assets	90,471	2,109	(13,613,637)	585,065	(13,523,166)	587,174
Interest and finance cost	96,967,017	2,260,108	80,535,789	1,793,702	177,502,806	4,053,810
<i>Total costs and expenses</i>	<i>1,059,619,657</i>	<i>24,411,992</i>	<i>1,001,694,611</i>	<i>24,929,047</i>	<i>2,061,314,268</i>	<i>49,341,039</i>
<i>Income before income tax and minority interest</i>	<i>(16,770,377)</i>	<i>1,852,336</i>	<i>166,759,509</i>	<i>1,638,179</i>	<i>149,989,132</i>	<i>3,490,515</i>
Less: Income tax	(311,169)	(7,253)	(97,731)	(2,177)	(408,900)	(9,430)
<i>Income before minority interest after tax</i>	<i>(17,081,546)</i>	<i>1,845,083</i>	<i>166,661,778</i>	<i>1,636,002</i>	<i>149,580,232</i>	<i>3,481,085</i>
Less: Minority interest in subsidiary companies	6,222,084	145,024	3,744,137	83,390	9,966,221	228,414
<i>Net income before extraordinary items</i>	<i>(10,859,462)</i>	<i>1,990,107</i>	<i>170,405,915</i>	<i>1,719,392</i>	<i>159,546,453</i>	<i>3,709,499</i>



Consolidated Income Statement	3 Months to 31/3/01		Second Quarter		6 Months to 30/6/01	
	THB	USD	THB	USD	THB	USD
Gain on redemption of RCDs	55,095,382	1,284,164	61,596,708	1,371,889	116,692,090	2,656,053
<i>Net income</i>	<i>44,235,920</i>	<i>3,274,271</i>	<i>232,002,623</i>	<i>3,091,281</i>	<i>276,238,543</i>	<i>6,365,552</i>
Depreciation of revaluation surplus of fixed asset	495,335	11,545	(495,335)	(11,032)	-	513
Retained earnings, Beginning of the year	(2,319,269,252)	1,953,286	-	-	(2,319,269,252)	1,953,286
<i>Retained earnings, Ending of the year</i>	<i>(2,274,537,997)</i>	<i>5,239,102</i>	<i>231,507,288</i>	<i>3,080,249</i>	<i>(2,043,030,709)</i>	<i>8,319,351</i>
Earnings per share	0.85	0.06	4.46	0.06	5.31	0.12

APPENDICES

- 1. FERRIER HODGSON'S ENGAGEMENT LETTER**
- 2. POLICY OF RESTATEMENT FROM THB TO USD CURRENCY**

APPENDIX 2: POLICY OF RESTATEMENT FROM THB TO USD CURRENCY

In restating the financial statements, consideration has been given to Thai GAAP. However, due to the unique nature of this restatement the provisions of Thai GAAP may not necessarily have been complied with. A significant unique feature is that many of the assets, liabilities and transactions of PSL were originally denominated in USD and translated into THB as required by the SET. In these instances these assets, liabilities and transactions have been restated into USD at the exchange rate, or estimated exchange rate, at which they were converted into THB. This, however, was not always possible in relation to the transactions recorded in the income statement, as this would require matching each transaction with the exchange rate at that date, in which case the weighted average exchange rate was applied.

Based on the uniqueness of the restatement discussed above, FH has sought to ensure the application of the most appropriate methods of restatement to reflect the underlying valuation and performance of the Company.

Please note that FH's responsibility is limited only to check and certify the restatement of the financial statements in USD based on the quarterly / semi-annual / annual financial statements in Thai Baht currency (THB) already reviewed / audited by statutory auditors. As such, the scope is limited only to a review on the accuracy of the restatement of the financial statements based upon the existing set of accounts maintained in THB.

Accordingly, the policies of the restatement of the items in the Company's balance sheet and income statement can be described as follows: -

- Balance Sheet

Most items in PSL's audited / reviewed balance sheet are converted from THB into USD using the exchange rate as at the balance sheet date. THB / USD's buying rate is applied on the asset side while the selling rate is used on the liability side. This policy, however, is not applied to some items as FH considers an alternative policy, as described below, would provide more accurate restatement into USD.

- Investments originally made in USD were translated by PSL into THB at the historical exchange rate as at the date of the investment. Therefore, in restating in USD the historical exchange rate has been used to reverse the translation.

- Vessels (including the barge and its equipment) and unamortised drydock and the special survey were originally purchased in USD currency and translated into THB at the historical exchange rate as at the acquisition date. Therefore in restating to USD the historical exchange rate has been used to reverse the translation.

Where fixed assets were originally purchased in THB the assets are converted by PSL at the exchange rate as at the balance sheet date. This, compared with the translation of USD fixed assets, is not consistent and therefore FH have applied the historical exchange rates to major THB fixed assets, i.e. buildings, plant, and equipment.

- Depreciation of assets which were originally acquired in USD is restated using the historical exchange rate at the date of acquisition. However, where the assets were originally purchased in THB, the depreciation is converted by PSL at the exchange rate as at the balance sheet date. Again, the policy on USD and THB asset depreciation is not consistent and therefore FH has applied the historical exchange rates to major THB fixed assets, i.e. buildings, plant, and equipment.
- Bunker oil, accounts receivable and payable, and freight hire received in advance are originally denominated in USD and are translated into THB at the exchange rate at the balance sheet date. The restatement into USD therefore is based on the 30th June 2001 exchange rate to reverse the translation.
- The nature of other current assets and liabilities is mostly very current and therefore the exchange rate as at the balance sheet date is applied.
- Other assets, excluding unamortised drydock and the special survey, are denominated in USD and are translated into THB at the exchange rate as at the balance sheet date. The restatement into USD therefore has used the 30th June 2001 exchange rate to reverse the translation.
- Goodwill is the excess of the investment in Great Circle Shipping Agency Limited, one of PSL's subsidiaries, over its book value at the amount denominated in THB. Similar to fixed assets originally made in THB the restatement into USD is applied at the historical rate.
- Loans from banks, bonds and interest payable are mostly denominated in USD and are translated into THB at the exchange rate as at the balance sheet date. The restatement into USD therefore has used the 30th June 2001 exchange rate to reverse the translation. THB loans and debentures are also converted at the exchange rate as at the balance sheet date.

- Minority interest is derived from minority shareholders' portion in the retained earnings of subsidiaries of PSL calculated at the balance sheet date and therefore the exchange rate as at the balance sheet date is applied.
- Cumulative translation adjustment primarily relates to THB denominated assets and liabilities restated at different exchange rates to USD resulting in an imbalance in the balance sheet. This should not occur for assets and liabilities originally denominated in USD as we have sought to restate the THB amounts to the original USD amounts. It should therefore be understood that the USD cumulative translation adjustment is not the translation of the THB translation adjustment.
- Share capital, reserves and retained earnings are restated at the historical exchange rates in which movements occurred.

- **Income Statement**

Most items in the Company's audited / reviewed income statement were originally denominated in USD and translated into THB at the prevailing exchange rate¹ at that time. In order to perfectly restate these transactions it would be necessary to match each transaction with its historical exchange rate. This is outside the scope of our review. These items have been translated using the weighted average exchange rates for three months ended 30th June 2001, which should approximate (where income, expenses and exchange rates are relatively stable) the historical exchange rates of each transaction. However should the THB / USD exchange rate change significantly in the future, the policy may be amended to better illustrate PSL's performance in USD terms. This policy, again, is not applied to some items as we consider an alternative policy, as described below, would provide more accurate restatement in USD.

- Depreciation of assets originally acquired in USD is similar to the depreciation item in the balance sheet. This item is not directly translated using the weighted monthly average rate but the historical acquisition exchange rates. As mentioned earlier in the balance sheet section, the policy on USD and THB asset depreciation is not consistent and therefore the historical exchange rates are applied to major THB fixed assets, i.e. buildings, plant, and equipment.
- Gains / losses on sales of fixed assets are converted at the actual THB / USD exchange rate as at the date of asset disposal for both USD and THB sales.
- The exchange gain in the USD Income Statement arises from THB denominated monetary assets and liabilities, minor fixed assets and current assets and liabilities which in USD terms have changed in value since 31

¹ The foreign exchange rate used is the monthly average rate obtained from the Bank of Thailand one month afterwards, eg average THB / USD rate of April is applied as the basis for the month of May figure.

March 2001. Due to the complexity in obtaining detailed figures for each item it is assumed that these items are fixed for the whole financial statement period, i.e. since April 2001.

- Gain on swap termination is restated at the actual THB / USD exchange rate as at the date of swap termination.
- Retained earnings at the beginning of the year are restated into USD at the actual historical exchange rate for the periods in which retained earnings were recorded. However, as mentioned earlier, the historical rate applied to buildings, plant, and equipment affects their net value, which subsequently affects the retained earnings in the past.

Please note that any items existing in the accounts before June 1997 are converted at THB / USD rate of 25.5 since the devaluation of THB commenced in June 1997 as before the devaluation the THB / USD exchange rate was relatively stable at THB 25.5 / USD 1.