

## **Annual Review - 2002**

### **FINANCIAL HIGHLIGHTS AND REVIEW OF THE YEAR:**

In terms of operations, during the year under review, the Total Revenues of the Company was Baht 3,402.39 million [2001: Baht 4,056.01 million] and the Company incurred a Net Profit of Baht 502.43 million [2001: Net Profit Baht 673.32 million]. This included a Net Gain on Foreign Exchange of Baht 73.12 million [2001: Loss Baht 75.46 million]. The Shareholders' Equity of the Company remains positive and is Baht 676.59 million [2001: Baht 474.04 million]. The Total Assets of the Company have decreased to Baht 5,103.84 million [2001: Baht 5,802.97 million].

During the year, the Company incurred an Operating Net Profit before Exchange Loss, Income Tax and Extraordinary items of Baht 338.55 million. But for the one time charge on account of provision for loss on investments in joint ventures and Guarantee obligation during the year, this figure of operating profit of 2002, would have been Baht 531.49 million. While efforts to sell the joint-venture investments are ongoing, the management thought it prudent to provide for any losses which may be incurred on the investments since the projects were unduly delayed due to a variety of reasons, but mainly on account of delays in receiving various Government and other statutory authorities' approvals. The Company also successfully negotiated the claim made by a bank on an old guarantee provided by the Company and settled the claim for US Dollars .75 million against the claim of about US Dollars 6.50 million.

The Company has continued to keep a tight control over vessel operating expenses and has been successful in maintaining these at near previous year's levels. The technical downtime has also been kept under control, at an average of less than 10 days per vessel, which, has led to minimum loss of revenues. As a result of the improved profitability and the reduction in the interest costs during the year, the Company did not face any liquidity problems during 2002.

### **REDEEMABLE CONVERTIBLE DEBENTURES (RCD):**

We are pleased to report that the RCD holders agreed to a restructure of their debentures (bonds) and resolved to amend the terms of their bonds. Under the new terms, the conversion feature has been permanently removed; the bonds will have a final maturity 6 years after the effective date, whereby the final maturity date of the Euro Bonds shall be 16<sup>th</sup> January, 2009 and that of the Thai Baht Bonds shall be 17<sup>th</sup> January, 2009. They will carry a coupon of 4.25% p.a. on the Euro Bonds and the coupon on the Thai Baht Bonds shall be 5% p.a. in the first 3 years and 6% p.a. thereafter until maturity. These changes have completely removed the threat of any dilution to the existing shareholders' shareholdings, apart from resulting in reasonably priced funding being made available to the Company for a relatively long period of time. This will add value to our shareholders.

## **FLEET:**

The Company disposed off 3 more of the older vessels in the fleet during the year and consequently, the fleet strength at the end of the year is at the level of 28 vessels with an aggregate capacity of 639,948 dwt and an average age of about 16 years. The rest of the vessels in the fleet are in reasonably good condition and there may not be any need for further disposals during the year 2003. The Company shall now be looking at replenishing the fleet with further vessel acquisitions and shall be on the lookout for the right opportunity. Fujisan Maru, the Company's partially owned cement carrier, converted in 1998, remained gainfully employed on a long-term charter during the entire year.

## **THE INDUSTRY OUTLOOK:**

Ship scrapping for 2002 continued in the same vein that we left off in 2001 but slowed down as we neared the end of the year with a total of 124 ships being removed from our sector, resulting in a net reduction of over 3.80% in the world fleet. The highest previous reduction was in 2000 when there was a net reduction of 4.74% in the world fleet in our sector. The reason for a slowing down in the scrapping rate has been the change in the freight market from a state of weakness in the beginning of the year to relative strength as the year 2002 ended. With over 52.5% of the world fleet in our sector being greater than 20 years of age, we expect the scrapping rate in the next few years to reflect those of the immediate past. This consistent net reduction in fleet size can only be beneficial to freight rates.

For the year 2003, the supply of new ships is not as strong as in the immediate past. In the Panamax sector there are 30 ships or 2.9% to be delivered during 2003 with another 46 ships or 4.5% contracted for delivery in 2004. The saving grace in the Panamax sector is that 50 ships or 4.9% of the fleet is currently over 24 years of age and would likely be scrapped during 2003 thereby balancing the fresh supply. In the Super Handymax sector 78 ships or 7.2% are scheduled for delivery in 2003 with another 51 ships or 4.7% to follow in 2004. In this sector 54 ships or 5.0% will be over 25 years of age and likely to be scrapped during 2003.

The geo-political situation in Iraq has acted as a real drag and helped slow down the world economy during 2002 whilst pushing oil prices to near term highs. We can but hope for a quick, peaceful and clean resolution to this crisis. If this crisis is resolved with a minimum of fuss in the first half of 2003 then the year will progress smoothly. However, if this crisis takes a longer time to be resolved or does not get resolved during 2003 then it will continue to act as an economic drag whilst keeping oil prices at very high and economically unsustainable levels. This would push the world into an economic recession and that would be bad news for all of us.

The myriad of forecasts made by our industry pundits, as indicated in our last report, have been vindicated with rates recovering strongly in the latter half of 2002. The same pundits now forecast that 2003 should be a good year followed by a similarly good year in 2004. Our own view is that the first half of 2003 will be stronger than the second half. If, however, the Iraqi crisis is resolved quickly, the second half of 2003 could turn out to be equally strong as the first half. We are cautiously optimistic about the prospects for the next two years.

## **REGULATORY INFLUENCES:**

Port State Control has continued its iron-man role forcing 'best industry practice' levels in every sector. The few accidents resulting in oil staining pristine beaches have helped tighten the screws by a few more notches. The sinking of the Prestige, an elderly single skinned tanker, focused attention once again on the vulnerability of older ships in stormy seas. This incident has re-ignited an industry wide debate on ports of refuge. The sinking of the Prestige could have been avoided had the Spanish Government permitted the salvors to bring the ship into port where her cargo of fuel oil could have been easily and safely unloaded with a minimum of pollution. Instead the Spanish Government refused shelter and pushed the ship out to sea where she broke her back and sank after 6 torturous and stormy days. The resultant pollution impacted almost the entire Atlantic shoreline of Spain. Knee jerk reaction by the politicians has resulted in a ban on all single skin tankers above 5,000 DWT carrying 'dirty' cargoes from sailing within 200 nautical miles from the shoreline. This is in clear violation of the United Nations conventions covering the rights of free and unhindered passage for merchant ships.

## **ISSUES FACING THE INDUSTRY:**

- Restructuring continued during 2002 with the remaining problematical deals getting sorted out. Very few deals remain to be sorted out and it appears, at long last, that the industry is finally sailing on an even keel in financial terms into the future.
- The advent of the dot.com platforms into our industry has been blunted with the majority of them folding leaving the field clear for the few to come up with a solution that understands the way our industry is regulated and does its business. If and when this move has been made, it will be welcomed by the industry and allow us to make better use of modern technology to conduct our business in a more efficient manner.
- In our last report we had hoped that the consolidation bug would spread to the Dry Cargo Sector that was badly in need of the same. Unfortunately this has not happened to any large degree. We can but hope that consolidations do continue in the future, as it is sorely needed in our business.

## **JOINT VENTURES:**

The process of winding up or the disposal of our joint-venture investments continues.

- Geepee Bulk Handlers, Kandla(GPBH): In view of the expiry of the concession agreement with the Government, for the Berth, the orderly closing down of this company continues.
- Southern LPG(SLPG): The process of closing down this entity has been finalized.
- International Seaports(ISPL): This investment was supposed to form the basis of some non-cyclical earning streams in the future. However, in view of the requirement to raise funds for the redemption of the RCD's, and the delays in receiving permissions and approvals from Government and other statutory authorities, further investments in the Kakinada and Dhamra Port Projects have been frozen, as a result of which, even if there is further progress in these projects through the efforts of our partners or new investors, our holdings in these projects shall be automatically diluted. Therefore, before a substantial dilution takes place, which could have an adverse impact on the liquidity of the sale of these investments, we have commenced efforts to sell these investments and are hopeful of a positive result in the near future. Once investments in these two projects are disposed off, our investment in the Haldia port project (about 22.4%) shall be the only investment remaining alive under the ISPL umbrella. Progress on this project has been very satisfactory and Financial Closure has also been recently achieved.

## **IN CONCLUSION:**

We have managed to sail through some very tough times with flying colours. This is, in no small measure, due to the very dedicated and hardworking professionals that make up the office, as well as, floating staff at PSL.