



BAKER TILLY FAS (THAILAND) LIMITED

Precious Shipping Public Company Limited

**USD Restatement Report for Twelve Months
Ended 31st December 2004**

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NOTICE TO ALL RECIPIENTS

SCOPE OF WORK

Baker Tilly FAS (Thailand) Limited (“BTF”) 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 BTF verified the underlying transactions. Therefore, BTF give no opinion on the financial statements. This is only a restatement of the THB audited financial statements into USD.

In no event shall BTF 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. BTF 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 3 February 2004 engaged Baker Tilly FAS (Thailand) Limited (“BTF”) 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.

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

BTF has undertaken to report on its review of the restated USD consolidated financial statements for the twelve-month period ended 31st December 2004. In undertaking the above, BTF were accorded the full assistance and co-operation of the PSL staff and management.

The restated USD Balance Sheet as at 31st December 2004 indicates that the total assets and liabilities of PSL were USD 377 million and USD 206 million, respectively. The equity of PSL as at 31st December 2004 was therefore USD 171 million.

In relation to the income statement, PSL’s total revenues and expenses, excluding interest and finance cost, for the twelve months ended 31st December 2004 were USD 215 million and USD 93 million, respectively. Net income, after including such items as interest and finance cost totaling USD 12 million, equals USD 110 million. The retained earnings at the end of the period stood at USD 120 million.

2. FINANCIAL STATEMENTS

Table 1: Consolidated Balance Sheet as at 31st December 2004 – Assets

ASSETS	31/12/03		31/12/04	
	THB	USD	THB	USD
Current assets				
Cash and cash equivalents	897,269,959	22,693,576	1,525,115,985	39,090,804
Accounts receivable – trade – net	70,185,983	1,775,130	31,469,215	806,599
Receivable from and advances to related companies	2,299,440	58,157	-	-
Bunker oil	20,612,060	521,316	6,520,222	167,122
Other current assets	83,168,282	2,103,476	196,422,282	5,034,571
<i>Total current assets</i>	<i>1,073,535,724</i>	<i>27,151,655</i>	<i>1,759,527,704</i>	<i>45,099,096</i>
Non-current assets				
Investments accounted for under equity method	87,700,531	2,037,650	95,045,100	2,218,964
Fixed assets at cost:				
Vessels & Vessels Equipment	8,168,304,742	305,010,737	16,062,556,514	503,228,639
Drydock & special survey	468,160,083	11,150,635	695,911,617	16,956,048
Office equipment	16,576,118	423,335	13,900,001	356,276
Leasehold improvement	2,773,880	70,156	2,981,433	76,418
Vehicles	13,705,876	346,646	17,099,967	438,295
Buildings & improvement	181,693,446	7,125,233	181,693,446	7,125,233
Furniture & fixtures	18,370,004	464,611	18,401,014	471,643
Berth equipment	114,582,149	4,493,418	-	-
Work in progress	-	-	25,870,859	663,105
<i>Total</i>	<i>8,984,166,298</i>	<i>329,084,771</i>	<i>17,018,414,851</i>	<i>529,315,657</i>
Less: Accumulated depreciation	(4,366,167,044)	(166,692,092)	(5,500,825,357)	(199,317,330)
<i>Total fixed assets – net</i>	<i>4,617,999,254</i>	<i>162,392,679</i>	<i>11,517,589,494</i>	<i>329,998,327</i>
Prepayment for vessel purchases	77,585,550	1,950,000	-	-
Goodwill – net	8,136,920	319,095	-	-
Other non-current assets	2,962,436	74,925	3,617,040	92,710
<i>Total non-current assets</i>	<i>4,794,384,691</i>	<i>166,774,349</i>	<i>11,616,251,634</i>	<i>332,310,001</i>
<i>Total Assets</i>	<i>5,867,920,415</i>	<i>193,926,004</i>	<i>13,375,779,338</i>	<i>377,409,097</i>

Table 2: Consolidated Balance Sheet as at 31st December 2004 – Liabilities & Shareholders' Equity

LIABILITIES & SHAREHOLDERS' EQUITY	31/12/03		31/12/04	
	THB	USD	THB	USD
Liabilities				
Current liabilities				
Trade accounts payable	52,290,655	1,315,892	94,408,016	2,408,214
Current portion of long-term loans	938,579,124	23,619,303	1,127,542,415	28,762,003
Advance received from charterers	108,893,669	2,740,304	206,666,758	5,271,775
Other current liabilities	326,519,361	8,216,845	221,021,381	5,637,941
<i>Total current liabilities</i>	<i>1,426,282,809</i>	<i>35,892,344</i>	<i>1,649,638,570</i>	<i>42,079,933</i>
Non-current liabilities				
Long-term loans – net	2,483,771,798	62,504,008	6,433,629,623	164,112,738
<i>Total non-current liabilities</i>	<i>2,483,771,798</i>	<i>62,504,008</i>	<i>6,433,629,623</i>	<i>164,112,738</i>
<i>Total liabilities</i>	<i>3,910,054,607</i>	<i>98,396,352</i>	<i>8,083,268,193</i>	<i>206,192,671</i>
Shareholders' Equity				
Share capital – issued and paid-up	520,000,000	20,392,157	520,000,000	20,392,157
Translation adjustment	159,706,393	4,996,371	130,819,670	4,892,732
Premium on ordinary shares	411,429,745	16,134,500	411,429,745	16,134,500
Statutory reserve – the Company	52,000,000	1,304,730	52,000,000	1,304,730
Statutory reserve – subsidiaries	169,995,000	5,187,990	292,100,000	8,191,219
General reserve in subsidiaries	24,181,905	800,153	-	-
Treasury stock reserve	-	-	450,880,716	11,218,216
Retained earnings	563,637,665	45,281,485	3,869,642,209	119,879,699
<i>Total equity attributable to shareholders</i>	<i>1,900,950,708</i>	<i>94,097,386</i>	<i>5,726,872,340</i>	<i>182,013,253</i>
Less: Treasury stock	-	-	(450,880,716)	(11,218,216)
<i>Equity attributable to shareholders – net</i>	<i>1,900,950,708</i>	<i>94,097,386</i>	<i>5,275,991,624</i>	<i>170,795,037</i>
Minority interest – equity attributable to minority shareholders of subsidiaries	56,915,100	1,432,266	16,519,521	421,389
<i>Total Shareholders' Equity</i>	<i>1,957,865,808</i>	<i>95,529,652</i>	<i>5,292,511,145</i>	<i>171,216,426</i>
<i>Total Liabilities & Shareholders' Equity</i>	<i>5,867,920,415</i>	<i>193,926,004</i>	<i>13,375,779,338</i>	<i>377,409,097</i>

Table 3: Consolidated Income Statement for Twelve Months Ended 31st December 2004

Consolidated Income Statement	12 Months to 31/12/03		Fourth Quarter 2004		12 Months to 31/12/04	
	THB	USD	THB	USD	THB	USD
Revenues						
Vessel operating income	3,796,875,589	91,163,739	2,673,471,178	65,212,658	8,540,256,074	211,217,118
Service income	6,259,661	151,261	6,017,737	146,788	18,934,196	467,983
Gain on sale of fixed assets	177,035	2,578	314,999	7,684	378,703	9,280
Gain on sale of investment in subsidiaries	-	-	-	-	33,526,580	842,398
Exchange gains	184,190,660	-	447,732,008	64,940	56,139,449	26,469
Bad debt recovery	-	-	-	-	55,963,180	1,406,145
Share of profit from investment accounted for under equity method	-	-	9,674,369	240,279	7,344,569	181,314
Interest income	1,261,148	30,028	8,552,896	208,627	13,598,921	333,041
Other income	1,760,637	42,769	187,978	4,585	1,975,703	48,816
<i>Total revenues</i>	<i>3,990,524,730</i>	<i>91,390,375</i>	<i>3,145,951,165</i>	<i>65,885,561</i>	<i>8,728,117,375</i>	<i>214,532,564</i>
Expenses						
Vessel running expenses	957,395,362	22,936,127	487,944,259	11,902,183	1,612,521,328	39,878,230
Voyage disbursement	306,807,237	7,330,573	5,783,616	141,077	128,413,341	3,186,301
Bunker consumption	266,620,343	6,347,273	728,649	17,774	103,357,219	2,570,716
<i>Total vessel operating costs</i>	<i>1,530,822,942</i>	<i>36,613,973</i>	<i>494,456,524</i>	<i>12,061,034</i>	<i>1,844,291,888</i>	<i>45,635,247</i>
Cost of services	13,243,470	316,996	4,266,922	104,081	15,082,144	374,545
Administrative expenses	180,015,147	4,303,901	60,188,101	1,468,139	247,033,734	6,163,600
Bad debt and allowance for doubtful accounts	6,705,262	160,583	928,350	22,645	5,522,540	138,102
Allowance for possible loss on current investments	-	-	-	-	1,859,699	40,951
Loss on impairment of goodwill	-	-	8,136,920	319,095	8,136,920	319,095
Exchange losses	-	1,625,991	-	-	-	-
Depreciation	601,964,978	20,719,581	442,447,357	12,312,458	1,383,295,082	39,983,245
<i>Total expenses</i>	<i>2,332,751,799</i>	<i>63,741,025</i>	<i>1,010,424,174</i>	<i>26,287,452</i>	<i>3,505,222,007</i>	<i>92,654,785</i>

Consolidated Income Statement	12 Months to 31/12/03		Fourth Quarter 2004		12 Months to 31/12/04	
	THB	USD	THB	USD	THB	USD
<i>Income before interest and finance cost</i>	1,657,772,931	27,649,350	2,135,526,991	39,598,109	5,222,895,368	121,877,779
Less: Interest and finance costs	(254,923,424)	(6,071,882)	(113,433,021)	(2,766,915)	(464,540,218)	(11,565,428)
<i>Income before minority interest</i>	1,402,849,507	21,577,468	2,022,093,970	36,831,194	4,758,355,150	110,312,351
Less: Net earnings of minority interest	(13,903,133)	(329,634)	(3,184,706)	(77,683)	(8,583,895)	(211,210)
<i>Net income before extraordinary items</i>	1,388,946,374	21,247,834	2,018,909,264	36,753,511	4,749,771,255	110,101,141
Gain on redemption of bonds	147,612,923	3,538,429	-	-	-	-
<i>Net income</i>	1,536,559,297	24,786,263	2,018,909,264	36,753,511	4,749,771,255	110,101,141
Dividend paid	(260,000,000)	(6,523,648)	-	-	(894,962,900)	(22,081,636)
Legal reserve – the Company	(52,000,000)	(1,304,730)	-	-	-	-
Legal reserve – subsidiary	(92,529,000)	(2,331,939)	(50,590,000)	(1,255,291)	(122,105,000)	(3,003,229)
Transfer of statutory reserve – Company to offset deficit	60,500,000	2,372,549	-	-	-	-
Transfer of premium on ordinary share to offset deficit	514,625,084	20,181,376	-	-	-	-
Treasury stock reserve	-	-	-	-	(450,880,716)	(11,218,216)
General reserve from sale of investment in subsidiaries	-	-	-	-	24,181,905	800,154
Retained earnings, Beginning of the period	(1,143,517,716)	8,101,614	-	-	563,637,665	45,281,485
<i>Retained earnings, Ending of the period</i>	563,637,665	45,281,485	1,968,319,264	35,498,220	3,869,642,209	119,879,699
Earnings per share	2.95	0.05	3.95	0.07	9.26	0.21

APPENDICES

- 1. BAKER TILLY FAS (THAILAND)'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, BTF 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 BTF'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 BTF 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), 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 BTF have applied the historical exchange rates to major THB fixed assets, i.e. buildings and berth 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 BTF has applied the historical exchange rates to major THB fixed assets, i.e. buildings and b e r t h e q u i p m e n t .
- Bunker oil, accounts receivable and payable, and advance received from charterers were 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 31st December 2004 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 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 been done at the 31st December 2004 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 been done at the 31st December 2004 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.
- 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 and reserves 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 31st December 2004, 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 and berth equipment.
- Gains / losses on disposal 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

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

assets and liabilities which in USD terms have changed in value since 30 September 2004. 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 October 2004.

- Gain on swap termination is restated at the actual THB / USD exchange rate as at the date of swap termination.
- Dividend paid is restated at the historical exchange rates in which movements occurred.
- 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 and berth 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.