

The Economic Impact and Financial Strategies Of One
Of The World's Largest Dry Bulk Handy Size Operators,
After The Asian Financial Crisis.

A Case Study on:



Precious Shipping Company Ltd.



**This dissertation is submitted as part of the requirements for the award of the
MSc in Shipping Trade and Finance.**

Adiba Hashim

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Supervisor: Professor C. Th. Grammenos

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Abstract: A case study on Precious Shipping Public Company Limited- (PSL) analysing its USD 193 million secured and unsecured debt restructure after the Asian Financial Crisis. An in depth financial analysis reveals that it was actually PSL's USD 146 million unsecured debt that brought it to near insolvency once the Asian Crisis hit. PSL's biggest mistake was borrowing on a short-term basis and not matching the cash flow of its assets to the maturity of its liabilities. Whilst such an aggressive strategy may be feasible in optimal market conditions, this case study shows how external events can make such strategies a near fatal mistake.

Executive Summary: Precious Shipping Public Company Limited (PSL) was established in 1989 and listed on the Thailand Stock Exchange in 1993. Today, PSL is one of the world's largest pure dry cargo ship owning companies operating in the small handy size sector of the tramp freight market. This thesis is a case study on PSL with a focus on the company's USD 193 million secured and unsecured debt restructure after the Asian Financial Crisis. This case study gives a descriptive linear timeline of how PSL came to existence, rapidly expanded prior to the Asian Crisis and how it was brought to near insolvency once the crisis started in Thailand in 1997. The paper sheds light on the reasons why PSL became so highly leveraged and through an in depth analysis of the relationship between global markets and the shipping industry explores the root causes for the financial restructure. The paper also includes a thorough financial analysis of PSL pre and post crisis and compares and contrasts its financial performance over a period of ten years.

In 1995 PSL was looking to expand and issued two financial instruments: a Thai Baht Debenture of 2.5 billion Baht and a Euro Convertible bond of USD 46 million. However, PSL swapped its Thai Baht denominated debt into a USD liability leaving its unsecured liabilities standing at a total of USD 146 million. In addition to this unsecured debt PSL also had secured loans from several banks. In the midst of its expansion programme PSL was brought to its knees. The most devastating effect of the Asian Crisis on PSL occurred through the severe devaluation of the Thai Baht in July 1997 that resulted in a loss upon termination of the currency swap of USD 34 million. Freight markets also took a turn for the worse as a result of the Crisis and PSL realised it was going to default on its secured and unsecured loans. The conclusion reveals that it was actually PSL's USD 146 million unsecured debt that brought it to near insolvency as its secured debt was renegotiated quickly and painlessly. Short-term borrowing to finance newbuilding and second hand acquisitions is a highly risky form of finance. This paper tells the story of how PSL came to be and expanded, and then how it pulled through a gruelling financial restructure and finally how it survived only to grow bigger and stronger.

Acknowledgements

This thesis could not have been written without the help of certain key individuals without whose input an accurate and detailed analysis of Precious Shipping Public Company Limited would not have been achieved. I would like to personally thank them all for their time and effort in helping me truly understand every aspect of the big picture.

Precious Shipping Limited Staff:

1. Managing Director, Khalid Hashim
2. Commercial Director, Munir Hashim
3. Finance Director, Kushroo Wadia
4. Major Shareholder, Kirit Shah

DnB Nor Bank:

5. Head of Shipping Credit Division, David Reeve Tucker

Tysers & Co.

6. Joint Managing Director, Marine Division, Christopher Spratt

Cass Business School:

7. Dissertation Supervisor: Professor Costas Th. Grammenos

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Introduction:

The objective of this dissertation is to analyse the economic impact and financial strategies of Precious Shipping Public Company Limited –(PSL), after the Asian Financial Crisis –(1997-1999). PSL is one of the world’s largest dry bulk tramp shipping companies operating in the small handy size sector of the Tramp Shipping Market. However, PSL’s size and significance in the small handy size sector are not the only factors that make PSL’s story a must read. PSL had an astonishing growth phase, growing from a fleet of just 7 vessels in 1991 to a massive fleet of 48 ships in 1997, – effectively expanding it’s fleet by 7 times over a short period of 7 years¹. This is a remarkable feat by any standards. In the midst of it’s expansion PSL sailed slam bang into the Asian Financial Crisis. The crisis resulted in a massive devaluation of the Thai Baht causing PSL’s debt when expressed in Thai Baht to skyrocket as it had swapped its Baht debt for dollar debt. Furthermore the Crisis provoked a decline in freight markets making it impossible for PSL to repay its secured and unsecured lenders, as the loans were short term in nature. How PSL reacted to this situation and successfully completed its financial-restructuring in close co-operation with its creditors makes it an interesting case study. Such problems are common in the shipping industry, which is both volatile and cyclical, where assets are extremely capital intensive and ship owners are ever willing to become increasingly leveraged. PSL’s struggle to survive the Asian Financial Crisis is riddled with events that illustrate the umbilical connections between shipping and global markets and highlights the intricacy and complexity of the shipping industry.

¹ PSL Annual Report, <http://www.preciousshipping.com/Default.asp>

This case study will aim to present the perspective of the various players that PSL interacts with including: bankers, insurers, brokers and PSL's own management and commercial staff. An in depth analysis of PSL and its financial strategies in the aftermath of the Asian Financial Crisis reveals how a great shipping company was born, the financial strategies it employed to grow and remain competitive but most importantly what had to be done when the mother of all crises came knocking on its door. The Asian Financial Crisis was expected by no one and brought the Asian Tiger economies to a standstill. How PSL survived this crisis is an intricate story that illustrates the intertwining relationships between the numerous players in the multifaceted shipping industry and provides insight into how a successful debt restructure may be achieved even in the most adverse circumstances.

About Precious Shipping Public Company Limited - PSL

Background:

Precious Shipping P.C.L (PSL) was established in 1989 and listed on the Stock Exchange of Thailand (SET) in 1993. PSL owns and charters out dry bulk ships, on a tramp shipping basis, in the small, handy size sector of the shipping market. The corporate structure of PSL, similar to other shipping companies, entails separate subsidiaries each owning a vessel (sometimes 2 or more) to limit liability².

As of 31st January 2006 PSL operates a fleet of 53 bulkers and 1 cement carrier (the Fleet) representing 1, 367,844 dwt. Of the entire fleet, 53 ships are registered under the Thai flag and 1 under the Bahamas flag.

² PSL Annual Report 2005, pg 3 http://www1.preciousshipping.com/annual_reports.asp

PSL is one of the largest pure dry cargo ship owning companies operating in the small handy size (10,000 to 30,000 dwt) sector of the tramp freight market. This segment of the market is extremely fragmented and characterized by companies owning 2 or 3 ships. This makes PSL's Fleet one of the largest operating in this sector. PSL's Fleet is managed by Great Circle Shipping Agency Ltd, Bangkok, a wholly owned subsidiary of PSL that is ISO 9002 certified³.

PSL operates its Fleet on a tramp shipping basis covering the entire world. Principal cargoes handled by PSL include agricultural products, steel, fertilizers, ores and concentrates, logs and other items.

Figure 1: PSL's Business Mix

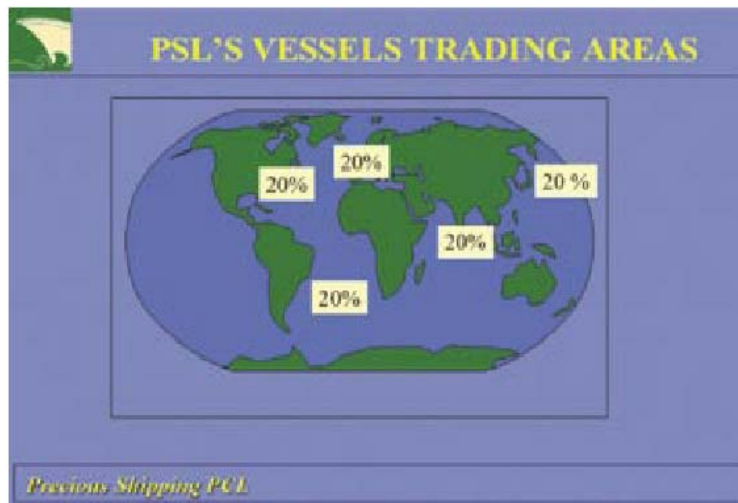
Commodity	(Number of Voyages and % of Total Voyages)		
	2003	2004	2005
Agricultural Commodities	66 (29.33%)	118 (25.54%)	139 (26.02%)
Steel	28 (12.45%)	85 (18.40%)	99 (18.54%)
Fertilisers	32 (14.22%)	62 (13.42%)	69 (12.92%)
Specialised Ores	31 (13.78%)	81 (17.53%)	97 (18.16%)
Forest Products/Logs	23 (10.22%)	19 (4.11%)	32 (6.00%)
Coal	9 (4.00%)	45 (9.74%)	45 (8.43%)
Others	36 (16.00%)	52 (11.26%)	53 (9.93%)
Total	225	462	534

PSL's business is divided evenly across five regions: USA/Canada, Europe, Latin America – Africa, Indian sub-continent – Middle East and South East and Far East Asia⁴.

³ PSL Annual Report 2005, pg 3 http://www1.preciousshipping.com/annual_reports.asp

⁴ PSL Annual Report 2005, pg 4 http://www1.preciousshipping.com/annual_reports.asp

Figure 2: PSL's Trading Areas



PSL operates its ships in ports that are characterized by limited draught and limited infrastructure where other larger ships cannot operate. PSL's vessels are also fully geared. This comparative advantage allows PSL to enjoy more stable charter rates than other larger vessel operators⁵.

The chartering of ships is mainly undertaken by PSL via the following two types of Charters:

Time Charter: Under this Charter, the Charterer pays Charter Hire to PSL to operate the vessel for an agreed time period. The Charterer bears all voyage costs including the cost of bunker fuels.

Voyage Charter: Under this Charter, the Charterer pays freight to PSL to transport a particular cargo between two or more designated ports. In this case, PSL incurs all the voyage costs including the cost of bunker fuels.

⁵ PSL Annual Report 2005, pg 4 http://www1.preciousshipping.com/annual_reports.asp

PSL's Fleet does not follow set voyage routes, but each ship keeps moving across the globe depending on its charters. The Fleet is hired on both time and voyage charters with a typical voyage duration of 1-3 months. PSL's mix between the two types of business has historically been equal, although in recent years due to the strong freight markets, the proportion of time charters has increased considerably especially so in the year 2004 and 2005 when almost all the ships were on time charters⁶.

Figure 3: Time Charter Vs Voyage Charter

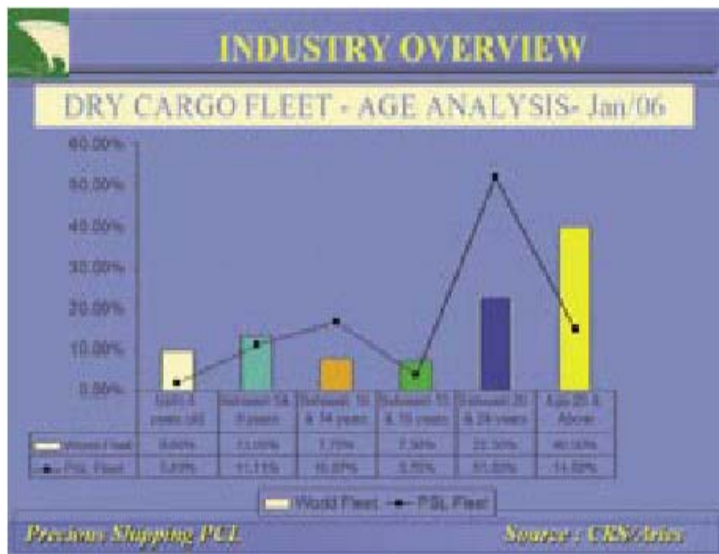
Charter	(Number of Voyages and % of Total Voyages)		
	2003	2004	2005
Voyage Charters	80 (36%)	20 (5%)	37 (8%)
Time Charters	145 (64%)	388 (95%)	450 (92%)

Fleet Age

PSL's fleet has a present (2006) average age of 19 years. An age wise analysis of the World Fleet as of January 2006 is given below:

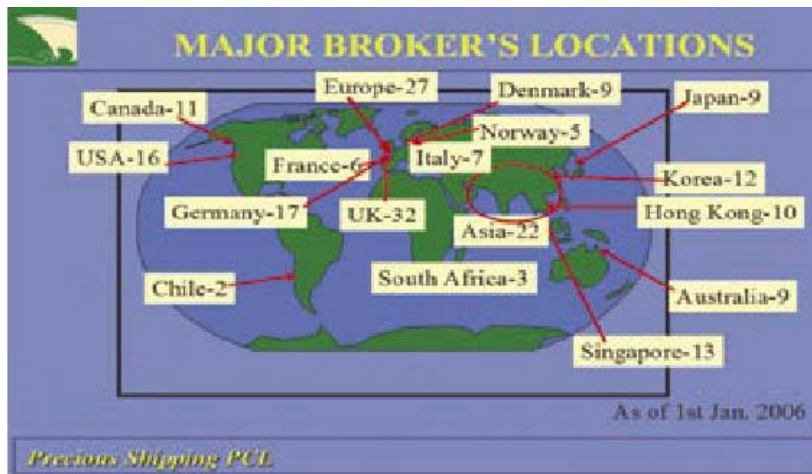
⁶ PSL Annual Report 2005, pg 5 http://www1.preciousshipping.com/annual_reports.asp

Figure 4: World Dry Cargo Fleet Age Analysis



PSL also enjoys a top class world wide marketing network consisting of brokers in over 16 different countries⁷:

Figure 5: Precious Shipping’s Major Broker Locations



The Small Handy Size Market

The small ‘handy size’ market is classified as ships in the range of 10,000 to 30,000 dwt, although in recent years this sector has begun including ships of 30,000 to 40,000 dwt also. Demand in the handy size sector is fragmented because of the broad

⁷ PSL Annual Report 2005, pg 5 http://www1.preciousshipping.com/annual_reports.asp

cargo base and multitude of ports serviced by the market segment. However, because this segment caters to such a wide variety of cargoes and calls on smaller ports, demand in this sector is less volatile compared to other bulk carrier sectors⁸.

Supply in the handy size sector is also highly fragmented. The fleet of 3,075 ships as at the end of 2005 has the largest operator having only about 60 vessels or a 2% market share. The majority of operators are private companies with a small number of vessels. This makes PSL one of the largest operators in this sector⁹.

The shipping industry is a very cyclical industry with approximately two years of declining charter rates needed to stabilise supply and demand before utilisation and therefore freight rates begin to increase. The last 'down cycle' in the shipping industry started in mid 1997 as a result of demand issues associated with the 'Asian Crisis'. The industry began to show signs of improvement in 2000 as a result of gradual increase in world economic growth and continued to improve until the first half of 2001. Also helping bullish freight rates was increased scrap prices that lead to the demolition of older vessels. After 2001, the market witnessed a downturn due to various factors. However the market has witnessed an unprecedented upward trend since the end of the last quarter of 2002 and reached a peak by late 2004. Rates continued to remain firm until the first half of 2005 after which there has been a decline. However lower freight rates in 2005 and 2006 are still high in comparison to historical values painting a positive outlook for the industry in the next few years to come¹⁰.

⁸ PSL Annual Report 2005, pg 9 http://www1.preciousshipping.com/annual_reports.asp

⁹ PSL Annual Report 2005, pg 9 http://www1.preciousshipping.com/annual_reports.asp

¹⁰ PSL Annual Report 2005, pg 71 http://www1.preciousshipping.com/annual_reports.asp

Significant Risk Factors

PSL classifies the various risk factors it is exposed to into three categories:

Operating Risk:

PSL as an owner and operator of ocean going vessels is exposed to the risks of marine disaster, environmental mishaps resulting in substantial claims, cargo/property loss or damage and business interruptions due to accidents or other events caused by mechanical failure, human error, political action in various countries, labour strikes, terrorist actions, piracy, adverse weather conditions and other such circumstances and events. This could result in increased costs and or loss in revenues. However, to cover these risks which are standard for an International Ship Owner / Operator, insurance covers are available in the international insurance industry. Accordingly, PSL is adequately covered against such unforeseen circumstances and events¹¹.

Financial Risk:

Almost all of PSL's revenues and expenses are denominated in US Dollars. Additionally all the fixed assets of the Company-i.e. ships are USD assets since they can be readily sold on USD in the international market. PSL is therefore exposed to the risk of realising a foreign exchange loss in respect of its liabilities in any currency other than USD. The USD equivalent of any 'Non-USD' denominated debt may increase or decrease with a fluctuation in the respective exchange rate. PSL has recognized this risk and attempts to maintain the least possible exposure in other currencies and as of 31st December 2005 PSL has no funded debt in any other currency other than USD. PSL also maintains almost all its bank balances in USD so

¹¹ PSL Annual Report 2005, pg 71 http://www1.preciousshipping.com/annual_reports.asp.

that there is no risk of realising any loss on these balances, in USD terms. It must be noted however, that PSL is exposed to an exchange loss in Thai Baht terms on translation of its USD denominated assets, liabilities, income and expenses. The whole of these losses however remain unrealised as the same arises only out of the currency translation from USD to Thai Baht in the Thai Baht financial statements. PSL's secured loans carry floating interest rates, which are based on LIBOR. In recognition of this exposure to interest rate risk PSL monitors interest rates regularly and remains vigilant on the issue¹².

Market Risk:

The shipping industry is both cyclical and volatile. This results in volatility in freight rates, vessel values and profitability as a result of changes in the supply of and demand for shipping services. PSL has traditionally marketed all its ships in the spot market and has therefore been exposed to market fluctuations¹³.

In 2004 PSL acquired several second hand vessels at market value while freight markets were in the midst of an upturn. PSL is therefore also exposed to the risk of reduced earnings and/or a fall in ship values in the event of a market downturn. PSL has attempted to cover this risk by putting almost all its ships on period charters or contracts for a longer periods to 'lock in' future earnings at the then existing higher freight rates. This deviation from PSL's traditional business strategy of operating in the spot market but proved to be a good move when spot markets witnessed a fall after early 2005 but the company's earnings outperformed the market. PSL continues to follow the strategy of booking longer-term period charters to ensure income

¹² PSL Annual Report 2005, pg 71-72 http://www1.preciousshipping.com/annual_reports.asp.

¹³ PSL Annual Report, pg 73 <http://www.preciousshipping.com/Default.asp>

stability. However, in doing business this way PSL faces the counterparty risk that its customers/charterers with whom the period charters have been agreed, may default on their obligations if freight markets fall further. This would force PSL to contract its vessels in the spot markets at lower rates¹⁴. PSL protects itself against counterparty risk by analysing the counterparty risk of its potential charterers and only signing with first class charterers with the highest possible credit ratings.

Employment of PSL's vessels is spread all over the world, without any concentration in any particular area. Therefore any adverse change in market conditions in any particular geographical region due to war, political action or any such reason will not result in a significant decrease in revenue¹⁵.

PSL's revenues are generated from a number of customers and the company is therefore not dependent on any single customer for the majority of its business. PSL will therefore not experience a significant decrease in revenues in the event of a loss of business of any one customer¹⁶.

Background on Founding Members of PSL – 1984-1989

Any interesting story is filled with interesting characters. The story of PSL is no different and is an enthralling tale of how a group of aspiring youngsters created the dry bulk handy size giant that PSL is today. To truly appreciate how PSL came to be the background of its founding members must be told.

The founding members of PSL are Khalid Hashim, Munir Hashim and Kirit Shah.

¹⁴ PSL Annual Report, pg 73 <http://www.preciousshipping.com/Default.asp>

¹⁵ PSL Annual Report, pg 73 <http://www.preciousshipping.com/Default.asp>

¹⁶ PSL Annual Report, pg 73 <http://www.preciousshipping.com/Default.asp>

The Hashim brothers Khalid and Munir today the Managing Director and the Commercial Director of PSL were born in Calcutta but were brought up in Bombay India. They did their MBA in Finance and Marketing respectively from the University of Bombay. The Hashim brothers come from a long line of shipping and trading professionals. In 1984 Khalid Hashim joined the GP group of family owned companies, headed by Kirit Shah, based in Bangkok Thailand to act as their shipping division. His brother Munir Hashim followed him shortly after in 1985. The GP group of companies, at the time, was involved in trading various agri-products/ soft commodities as well as dabbling in various industrial ventures¹⁷.

Khalid Hashim describes this time in his own words:

“It was an exciting time. I had joined the group where the owner- (Kirit Shah) was my age (31). His key people were on an average 4 or 5 years my junior making the average age of the management team in the mid-high 20’s. We were competing on trades with giants like Continental Grain, Cargill, ADM and Bunge. And not just competing with them but beating them at their own game. Our principal strength at that time was our ability to make impossible trades possible by wringing efficiency out of each link of the transportation chain. By 1985 my younger brother had joined us and we were able to take on even greater challenges. Whist I stayed on at head office, Munir travelled to all corners of the globe making sure that the efficiency that we needed, to make these impossible trades happen did in fact take place. The trade

¹⁷ Interview with Managing Director, Khalid Hashim 19th July 2006.

expanded. Profits increased. Shipping was the star. Kirit Shah was on a roll and his next venture was to get into ship owning”¹⁸.

Kirit Shah, the owner and major shareholder of the GP group of companies, had inherited a small but highly profitable trading business from his father. By the mid 1980’s the GP group was trading mainly out of Thailand to the Middle East and African markets. Munir Hashim describes what he and his brother achieved by joining the GP group:

“When I joined, the GP group was involved in basic annual trades of about 250,000 tonnes¹⁹. With the addition of the Shipping Division trade routes expanded allowing the trading company to do cross trades of various other commodities into the markets that they were already established in, as well as exploring other markets that they had previously never ventured into. For instance we went into destinations like Korea and South America”²⁰.

The addition of the Hashim Brothers to the GP group of companies was not coincidental and both joined GP specifically because of their background in shipping. In the early 1980’s as GP grew, and established itself as one of the major exporters in Thailand, Kirit Shah gradually began to feel the need to acquire a shipping executive for his trading company. He recalls a particular incident that crystallized the need to bring the chartering business in house.

“We were one of the larger exporters from Thailand. There were a few ship owners and operators running a service between Thailand and the Middle East

¹⁸ Interview with Managing Director, Khalid Hashim 19th July 2006.

¹⁹ Basic trades implies trades originating from Thailand where the GP group was based.

²⁰ Interview with Commercial Director Munir Hashim July 25th 2006

and Africa. Invariably we saw that our cargo was the base cargo²¹ for these owners and operators. During this period there was a very large operator called *Mondale Maritime* based out of Singapore and we had cargoes on about eight of their ships. Midway on a voyage in 1983 Mondale Marine declared bankruptcy²². Since GP cargoes were the dominant cargo on all these ships I took the lead to bring the owners of the vessels and the receivers of the cargo together. With the owners sacrificing some revenue and the shippers/receivers paying some additional amounts to the voyages were completed. Till that point all the chartering or fixing of ships was done by the traders in GP who had very little knowledge of the actual workings of the freight markets. I felt that we needed a professional shipping executive to handle at a single point all our requirements. The one person I knew in Singapore was Munir Hashim and he was working with Maldivie Shipping who were incidentally also carrying a lot of our cargoes. I approached him to join the GP group in Bangkok. After some thought he declined, as the Maldivie government needed his services and would not release him but instead suggested I speak to his brother. Khalid moved to Bangkok in 1984 and took over the entire responsibilities of chartering and was followed a year later by Munir as by then our chartering activities had increased quite substantially”²³.

The story so far tells us how the founding members of PSL met and started working with one another but the transition to ship owning has yet to be revealed. Kirit Shah

²¹ Due to GP's position as a major exporter out of Thailand, shipowners servicing routes from Thailand to the Middle East and Africa would place vessels based on GP's requirements and would then top up with cargoes from a variety of other smaller shippers/exporters. - Interview with Kirit Shah June 25th 2006

²² This is hardly surprising since during the early 1980's the shipping industry was going through one of it's worst recorded slumps in history.

²³ Interview with Major Shareholder Kirit Shah 25th July 2006

as the owner of the GP group felt that moving into ship owning would serve to hedge his freight requirements.

“The one thing that made us take the transition from chartering to owning was that whilst a trader could hedge his commodity position by engaging in futures trading there was still no reliable way of hedging your freight requirements. The one possible hedge was to own your own vessels. While we had cargoes going out of Thailand we did not have any return cargoes. So we bought ships that were always Bangkok draught suitable as the thinking was that in the worst scenario GP would always be able to provide cargo for at least one of the legs-i.e. for the outbound voyage. In reality GP rarely used their own vessels because our shipping requirements were for larger ships, and in any case, we did not own enough ships. Yet another reason for the transition into ship owning was that, at that particular juncture in time shipping markets were going through a sustained down cycle. This had severely diminished the financial capabilities of owners resulting in actual defaults. We were therefore, forced to go into ship owning to protect our interests” - Kirit Shah²⁴.

GP as a company never owned the vessels. The only link was Kirit Shah who was both the major shareholder in the GP group of companies and who provided a major proportion of the equity/finance for purchasing the ships. Mr. Shah felt the need to move into ship owning to hedge the group’s forward freight requirements. As Commercial Director, Munir Hashim, saw another benefit of ship owning:

“The ship owning aspect also enhanced the trade by allowing us to focus on the areas/commodities where our vessels were traded. For example: Marble

²⁴ Interview with Major Shareholder Kirit Shah 25th July 2006.

chips from Italy to Kuwait is one of the trades that I distinctly remember us focusing on because that was what our vessels were involved in on behalf of our clients. We went from 250,000 tonnes in 1985 when I joined to roughly 1 million tonnes in 1989. Once we became public and we had more vessels we had to separate ourselves from the GP group of companies and limited in-house trade, which was done at market or better levels. For Good Corporate Governance reasons we had to keep the GP group of companies – i.e the trading company, at arms length so as not to be perceived as either being supportive or subsidizing the trading company”²⁵.

Birth of Precious Shipping Limited – 1989-1991

On 16th June 1987 delivery of the first vessel, KISO MARU (\$1.67million), was made. At the time shipping finance from conventional resources such as banks was not available. “The reason shipping finance was largely unavailable was two fold. The first was that we were largely unknown and had no ship owning experience and secondly no firm organization was in place. Furthermore, the amounts that we needed to borrow were too small for the banks to be really interested in” - Munir Hashim²⁶. The first vessel was acquired with a debt equity structure of 1:1. The equity portion was funded by the Hashim brothers at 40% and Kirit Shah put up the balance 60%. Since no bank finance was available Kirit Shah also lent the entire debt portion of the acquisition cost to the owners on a ‘repayable when able’ basis. Two further vessels were acquired before the end of 1987 with Mr. Shah acting as a lender for 50% of the total acquisition cost and taking up 50% of the equity portion. By 1988 bank shipping finance became available from non-traditional shipping banks. Credit Agricole (now

²⁵ Interview with Commercial Director Munir Hashim 25th July 2006.

²⁶ Interview with Commercial Director Munir Hashim 25th July 2006

known as Calyon), Hong-Kong branch lent the ship owners (Khalid, Munir, Kirit et al) up to 50% of the acquisition cost. This released funds for further acquisitions of ships²⁷. The cash flow generated by the three vessels allowed for loan repayment and helped fund further acquisitions. By 16th June 1989 the fleet had grown to 7 ships. All the ships were registered under flags of convenience and owned by offshore companies. Between 1987 and March 1991 all the loans taken to finance the fleet of 7 ships were paid back from the cash flow generated by operating these ships.

As mentioned above, once bank finance did become available the fleet expanded to 7 ships and the loans were repaid from the cash flow generated from the operation of those vessels. Since this is the essence of bank shipping finance it would be worth mentioning the nature of these loans and the type of risks that banks face when making loans to shipping companies. Financial institutions that lend funds to shipping companies for the purpose of second hand vessel acquisitions or placements of newbuilding orders face a number of risks such as interest rate risk and liquidity risk. However, the banks primary risk in shipping finance is credit/default risk, which is the uncertainty over the repayment of the granted loan and payment of its interest in full on the agreed date. This is mainly due to the volatility of the vessels income - which is often the main source of loan repayment; as well as the consequent fluctuations in the vessel's market value – which in most cases is the main security for the loan. Both fluctuations in the vessels earnings and market value are the direct result of the cyclical and volatile nature of the shipping industry²⁸.

²⁷ The loans granted from the Hong Kong branch of Credit Agricole were used to repay Kirit Shah who was then in a position to invest more funds in ships collectively with the Hashim brothers.

²⁸ Handbook of Maritime Economics and Business, Grammenos pg 732.

Financial institutions provide various types of loans to shipping companies. However, the majority of the loans provided are known as 'term loans'. In term loans the bank will lend a certain amount to the shipping company for vessel acquisition over a specific period of time (exceeding one year) that is traditionally repaid from the income generated by the operation of the vessel being financed and possibly from its terminal/residual value. Term loans are tailor made to suit the needs of the borrower (shipping company) and lender to complement the circumstances of both parties during the time that the loan is granted. Therefore the loan can be granted with a moratorium of one or two years or balloon or bullet payments can be arranged. The loan repayment schedule may also be 'back end' or 'front end' in nature. These arrangements allow the shipping company to recapture excess cash flow for further investment and ensure the bank is repaid the bulk of the loan earlier on, respectively²⁹. The interest rate on the loan is normally floating and based on the LIBOR. A spread is added which represents a significant part of the gross income the bank earns from making the loan. The spread is typically agreed in advance, however the LIBOR is renewed periodically, i.e. every 3,6 or 12 months in the euro dollar interbank market should the loan be granted in US dollars. Fluctuating interest rates allow the bank to pass on interest rate risk to the shipping company whose cost increases or decreases depending on how the LIBOR moves³⁰.

Between 1988 and 1989 a handsome dividend of about 100% per annum was also paid to the shareholders. "Mr. Shah though not averse to making his staff rich, via these dividends, was afraid that some of his key people might leave him because of their wind-fall riches through these dividends. Additionally, these dividends made it

²⁹ Handbook of Maritime Economics and Business, Grammenos, pg 732.

³⁰ Handbook of Maritime Economics and Business, Grammenos pg 733.

very difficult if not impossible to organically grow the business” - Khalid Hashim³¹. “By 1989 the market had started moving up and we were earning reasonably good money. At this time we had run out of cash to purchase new vessels. So the idea was to bring all the ships under an umbrella entity and raise finance by taking that company public. This would allow for twofold effect: an exit policy for smaller shareholders³² and fleet expansion” - Munir Hashim³³.

For these reasons the ship owners felt the need to bring these offshore assets into an onshore entity to take their business to the next level and grow organically. In October 1989 Precious Shipping Limited was registered as a Thai company. And between October 1989 and March 1991 the founding shareholders discovered the right method of bringing these offshore assets into PSL.

“The major reason for taking these assets onshore was to be able to expand the business. Shipping is a capital intensive business and therefore the ability to access and raise large amounts of funds is extremely important. In the early 1990’s the Thai stock market had a daily turnover, which was in excess of the daily turnover of all the neighbouring markets put together –i.e. it was one of the most liquid markets in South East Asia (SEA). Hence the decision to create Precious Shipping in Thailand was taken. Additionally the fact that the GP group was moving millions of tonnes of cargo in and out of Thailand and other countries acted as a very valuable ‘safety net’ for the PSL fleet” - Khalid Hashim³⁴.

³¹ Interview with Managing Director Khalid Hashim 23 July 2006.

³² Note: There is no exit policy for shareholders in a small privately held company because no market share price and the market for such shares is often quite illiquid.

³³ Interview with Commercial Director Munir Hashim 25 July 2006.

³⁴ Interview with Managing Director Khalid Hashim 23 July 2006.

Despite having this safety net PSL never exercised this option for two reasons. Firstly, from a corporate governance point of view it was not ideal to have PSL's major shareholder, Nishita Shah, also act as the major cargo provider via her father Kirit Shah, and his GP group. Secondly and more importantly the traders always wanted the cheapest freight rate whilst the owners always wanted the best freight rate. This element of competitiveness made amply sure that PSL never relied upon the GP cargoes for their survival.

Going Public and Expanding the Fleet 1991-1997 – Pre Crisis

During 1991 PSL worked with the stock exchange of Thailand (SET) to take the company public via an initial public offering³⁵. By the end of that year PSL's proposal to the SET had been accepted by their executive board and was to be cleared by their main board before going ahead with their IPO.

“To that date the main board of the SET had never rejected a proposal approved by their executive board. But there has to be a first time for everything, and sadly, our proposal was rejected at the main board level on the grounds that the assets were of a floating nature and were flagged in Panama and therefore could be dissipated to the chagrin of the Thai shareholders” - Khalid Hashim³⁶.

PSL were told that the IPO proposal would be approved once the assets were Thai flagged. Though the decision of the SET main board was disappointing this did not stop PSL from expanding. Instead of the proceeds from the IPO PSL made three private placements (5.37 million new shares were issued at Baht 30 per share on March 12, 1991 equivalent to USD 6.44 million, 2 million additional new shares at

³⁵ PSL's IPO occurred in Sept 1993.

³⁶ Interview with Managing Director Khalid Hashim 23 July 2006.

Baht 61 on May 20, 1991 equivalent to USD 4.88 million and a Rights Issue of 2 million new shares at Baht 85 on September 30, 1992 equivalent to USD 6.8 million) in the interim period raising a total sum of USD 18.12 million which allowed it to continue with its expansion programme.

There are several advantages and disadvantage of private placements. PSL's private placements allowed it to access funds without incurring more debt and hence reduced its financial risk. These private placements also had the likely effect of promoting the reputation and prestige of the company. The most important benefit of these three private placements however, was that they provided PSL with a stepping stone to a full listing on the SET which indeed occurred only a year after the last private placement. The main disadvantage of the private placements PSL did was the cost, which consisted of accounting, sale and legal fees. Another disadvantage might have been the small investor base that results from private placements which in turn restricts the resale ability of the investors³⁷. However, such a disadvantage was short lived as PSL went public shortly after.

During this time PSL was also establishing relationships with banks like Credit Agricole (Calyon) and DnB Nor. "With the funds generated from the private placements and these banks PSL was able to double it's fleet." - Khalid Hashim. DnB Nor is an established shipping finance bank whilst Calyon is an investment bank with a specialized shipping finance department. In 2005 DnB Nor was ranked number one³⁸ in global marine syndicate activity. As mentioned above the major risk financial institutions lending to shipping companies must face is credit risk. Loan

³⁷ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 9-10.

³⁸ DnB Nor grabs top spot, O'Cinneide, TradeWinds.

losses may significantly reduce the return on assets- (ROA) of a bank and therefore destroy value for the bank. On the other hand loan profits increase the ROA and create value for the bank. The lending function of a bank deals with credit risk and serves to ensure that the bank only grants sound loans. This allows the bank to protect its shareholders and depositors and create value³⁹. The lending function has four parts and is summarized in the table below:

Table 1: Bank Lending Function

Lending Function Phase	
Origination of the loan	When the loan is initiated, analysed and approved
Funding	When external or internal funds are used for the draw down of the loan
Follow Up Stage	When principal and interest payments are made
Monitoring	Collecting and analysing data and information about the borrower during the follow-up-stage.

Banks can minimize credit risk by conducting sound credit risk analysis. The credit risk analysis of a loan assesses the probability of payments in full. An efficient credit analysis will consist of identifying the purpose of the loan and analysing the loan proposal's main strengths and weaknesses⁴⁰. Professor of Shipping, Investment & Finance at Cass Business School London, Costas Th. Grammenos, introduces the '6 C's' of credit analysis in bank shipping finance as a sound risk analysis method of assessing the probability of the loan repayment of acquisition of second hand vessels or newbuildings. The 6 C's are Character/Capacity, Capital, Company, Conditions, Collateral and Cash flow analysis⁴¹. The table below summarizes the main

³⁹ Handbook of Maritime Economics And Business, Grammenos pg 731.

⁴⁰ Shipping Investment and Finance Lecture Notes: Part III & IV, Grammenos pg 10-11.

⁴¹ Handbook of Maritime Economics and Business, Grammenos pg 734-739.

elements of the credit analysis that banks lending to shipping companies conduct prior to deciding whether to grant the loan or not.

Table 2: The Six C's Of Credit Analysis⁴²

Character/Capacity	Capital	Company	Conditions	Collateral
Head of Company, and Team Capacity and Integrity	Shipowner/Company's Head Shareholding Stake	Structure of Company	Financial Markets	Fleet's Composition
Company's Mission - goals	Financial Structure	Inflows:	Interest Rate	Fleet's Condition
Strategic Plan	Analysis of Financial Statements	Forms of Employment	World Economy	Vessels' Economic Life
Strategies to Achieve them	Financial Ratio Analysis:	Choice of Charterers	Political Conditions	Securities:
In Particular:	Gearing Ratio (Total Debt/Total Assets)	Quality of Charterers	Seabome Trade	Mortgages
Investment & Finance	Long Term Debt/ Total Capitalisation	Contracts with Charterers	Specific Commodities	Assignment of Income
Chartering	Pre-Tax Interest Coverage	Effective Utilisation of Vessels	Manufactured goods	Assignment of Insurance
Insurance	Pre-Tax Funds Flow Interest Coverage	Outflows:	Shipping Markets	Personal and Corporate Guarantees
Technical	Hull to Debt	Operating Costs	Present and Future Demand And Supply Analysis	Share Security
Cost Management		Administrative		
Risk Management	Cash Flow	Technical		
Creditors		Insurance		
Human resources	Cash Cushion	Crew	Shipping Investment Cycle	
		Voyage Costs	Fragmentation of Markets	
Coherent	Other Sources of Funds	Capital Costs	Barriers to Entry	
Forward Looking & Learning From The Past	Banking Relationships	Markets of Operation (1)	Regulatory Framework:	
	Accounting Methods	Market Share (2)	Official International Organization - IMO	
		1+2 = Company's Operating Position	Flag States	
			Port Authorities	
			ISM Code	
			OPA 90	
			Other Organisations' Requirements	
			Classification Societies	
			Insurance companies and P&I Clubs	
			Major Oil Companies	

In 1991 a further 6 ships were purchased by PSL and in 1992 another 2 vessels were bought. By the early part of 1993 PSL had managed to 'Thai flag' their assets and had resubmitted their proposal to the SET main board for approval. This approval was granted in April 1993 and in September that year PSL completed its IPO raising (26 million shares at 85 Baht at the time exchange rate = 25=1\$) 13.6 million US Dollars.

⁴² Table obtained from: Handbook of Maritime Economics and Business, Grammenos pg 735.

“The first day of trading for the company was on the 16th of September 1993 when the share price went from the IPO level of 85 Baht per share to an astronomical 180 Baht per share before settling at 160 Baht for the day” - Khalid Hashim⁴³.

There are several factors that play a role in the success of an IPO. The most important of these factors is the company’s expected market capitalization. The dramatic appreciation in PSL’s share price post listing from 85 Baht to 160 Baht indicates that the IPO was successful although such a rapid appreciation may have tempted investors to take immediate profits thereby adding only limited value to the offer. Another factor indicating the success of an IPO from the issuer’s point of view is the transaction size. PSL generated about USD 14 million or 325 million Baht. “This was a substantial amount of money at the time and enough to expand the business” - Khalid Hashim⁴⁴. Thus from PSL’s point of view the IPO was success. Trading volume is another good indicator of the success of an IPO. A very high turnover in the immediate after-market of an offer is normally a sign that the allocation of shares was sub-optimal and that too many short-term investors were allocated shares. A turnover in the first three days following an IPO that exceeds 15-25% is considered high⁴⁵. PSL’s stock turnover post IPO was well below this level indicating that an appropriate investor base was secured. Another reason PSL’s turnover is rarely at such high levels is due to its shareholder structure which is shown below:

⁴³ Interview with Managing Director Khalid Hashim 23 July 2006.

⁴⁴ Interview with Managing Director Khalid Hashim 23 July 2006.

⁴⁵ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 18.

Table 3: PSL's Major Shareholders⁴⁶

No.	Name	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1	Globex Corporation Limited	40.91%	40.91%	36.07%	36.07%	36.07%	27.28%	26.77%	25.93%	24.23%	22.46%	25.06%
2	Graintrade Limited	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%
3	Siam commercial bank plc	5.19%	5.19%	5.19%	5.19%	4.52%	4.86%	4.86%	4.83%			
4	Thailand Securities Depository co.,Ltd.(Foreign)			23.84%	23.81%	25.11%						
5	Thailand Securities Depository co.,Ltd.(Thai)			12.89%	17.70%	17.65%	11.31%		1.76%			
6	Precious Holdings Limited			2.42%								
7	Precious Assets Limited			2.42%								
8	Somprasong Land Public company Limited			1.35%	1.35%	1.35%	1.35%	1.35%	1.35%	1.35%	1.35%	1.35%
9	Mr.Suphat Sivasriamphai			1.31%	1.31%	1.31%	1.31%	1.30%				
10	Mr. Munir Moinuddin Hashim				1.03%	1.03%	14.09%	20.72%	18.14%	7.83%	7.20%	7.22%
11	Miss Sameera shah				0.90%	1.58%	1.58%	1.58%				
12	Seamico Securities Public co.,Ltd						9.88%					
13	Mr. Khalid Moinuddin Hashim						6.75%	11.75%	10.46%	9.56%	9.58%	9.59%
14	Thai NVDR Limited							11.63%	11.37%	6.06%	4.39%	5.32%
15	Pictet & Cie							1.44%		2.43%	1.23%	0.93%
16	Bank Julius Bear & Co.,Ltd							1.26%				
17	Kim Eng Ong Asia Securities(Pte) Ltd								3.37%			
18	Miss. Nishita Shah								2.70%	12.08%	12.08%	9.48%
19	Citibank International PLC (Luxembourg Branch)									3.44%		
20	HSBC (Singapore) Nominees Pte Ltd									2.26%		
21	Mr. Shah Salil Sevantial									1.92%	1.92%	0.94%
22	Fortis Global Custody Services N.V.										2.89%	2.31%
23	****Precious Shipping Public Company Limited										2.57%	2.57%
24	Somers (U.K) Limited										1.79%	
25	Aspire Group Limited										1.23%	
26	Unistretch Limited										0.67%	0.73%
27	Mrs. Ishrat Hashim (wife of Mr.Munir Moinuddin Hashim)										0.64%	0.64%
28	DEUTSCHE BANK AG, FRANKFURT											0.96%
29	THE BANK OF NEW YORK NOMINEES LTD											0.91%

Graintrade Limited and Globex Corporation Limited are owned by Nishita Shah, the daughter of Kirit Shah and represent about 50% of outstanding shares in 1995. Once Siam Commercial Bank's holdings are taken into account this leaves a little over 50% of shares free float explaining why PSL's trading volume has been relatively low. Finally, timing is a crucial factor to the success of an IPO. It is ideal to go public when other competitors are not⁴⁷. In 1993 when PSL went public freight markets were on the rise and no other shipping companies went public that year on the SET.

⁴⁶ Table supplied by Finance Director Kushroo Wadia.

⁴⁷ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 18.

There were several benefits to PSL from going public. The fundamental advantage of going public was the reduction in financial risk by obtaining the finance it required to expand the business without incurring more debt and the corresponding obligations it entails. This is a benefit for all companies that go public but is especially relevant to shipping companies, which tend to be highly geared by virtue of the industry. Yet another benefit of going public is that it may pave the way for future injections of debt since the equity raised results in lower gearing levels⁴⁸. This is especially true for PSL, which issued quite a substantial amount of debt (about USD 146 million) a year and a half after its IPO in late 1995. The other direct benefits of going public include enhanced liquidity of the company, which in turn positively influences the company's market value. It is important to note that often sufficient liquidity in the equity market can be a pre-requisite for raising further capital (even non-equity capital). A reason for why an active market can help in obtaining further finance is simply that the share price signals the value of the company. Alternatively, once a company is listed, its shares may be used as collateral for future loans⁴⁹. This second point is especially relevant to shipping companies as a form of collateral in addition to the mortgage on the vessel is share security, whereby the owner deposits shares of the borrowing shipping company that he/she controls, with the bank, for a specific period or until the loan is completely paid off. This type of collateral is extremely important and more effective when a company is publicly listed as it allows the bank in the event of loan default, to assume ownership of the vessel-owning company as opposed

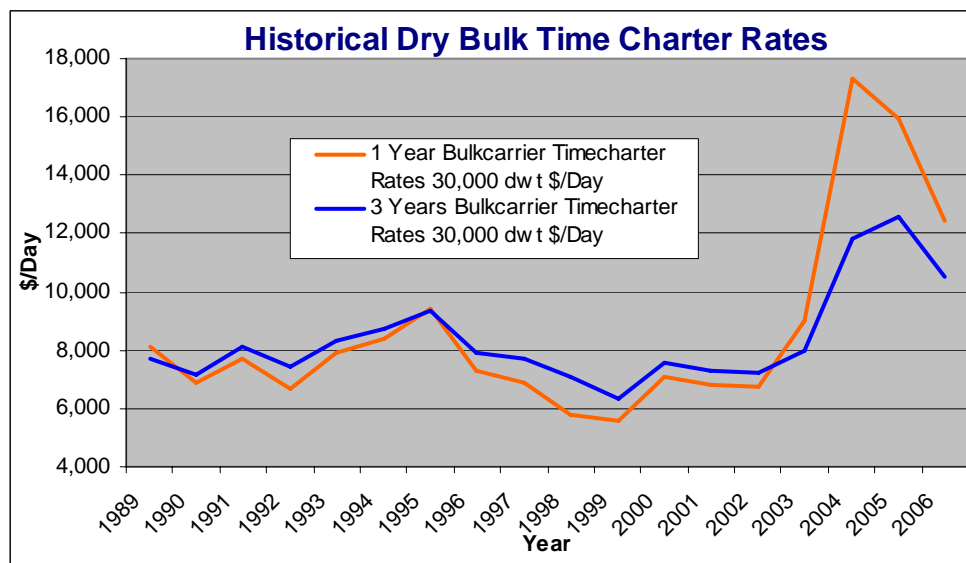
⁴⁸ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 7.

⁴⁹ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 8.

to the vessel itself, resulting in the bank becoming the new owner of the vessel and not the mortgage⁵⁰.

With the proceeds of the IPO under their belt PSL were able to further expand the fleet, purchasing 9 vessels in 1993 and another 4 in 1994 bringing the total fleet size to 27. The freight market lent a helping hand at that stage reaching an all time high in April 1995. The graph below illustrates the peak reached in 1995 in dry bulk freight rates and brief synopsis on historical dry bulk time charter rates from the mid 1980's to 2006 is given.

Figure 6: Historical Dry Bulk Time Charter Rates⁵¹



In living memory the dry bulk market had never been as low as in 1986. The markets firmed up from 1987 all the way through till 1991 in a very gradual manner. This continued until 1992 when there was a bit of a hiccup. The 2nd half of 1994 showed a rapid rise in the dry bulk market and a peak was reached in 1995. The market began to come down in 1996. In early 1997 the market began to turn around yet again but

⁵⁰ Handbook of Maritime Economics and Business, Grammenos pg 742.

⁵¹ Data obtained from Clarksons SIN 2005- See Appendix 2.

this did not last long and in conjunction with the Asian Financial Crisis the dry bulk market collapsed in mid 1997 and reached a the low point of the 1990's in 1999. From this point onward the market began to, once again, gradually improve. Towards the end of 2003 the market began to pick up steam like never before and by the end of 2004 the highest ever peak of the dry bulk market was reached.

During that year (1995) PSL felt it was an opportune time to explore non-traditional funding means to continue growing the company. In November 1995 PSL issued three financial instruments. PSL first did a rights issue⁵² at 1:1 at par to expand the total number of shares in the company with an objective to increase the liquidity of the shares on the stock market. This helped raise about \$10 million. Secondly, PSL issued a domestic bond of 2.5 billion Baht, which was swapped into dollars with their liability standing at \$100,000,000⁵³. PSL wanted to match their currency of liability with their revenue stream, which was entire in USD, was therefore made. These Thai bondholders were various Thai banks including Siam Commercial Bank, Thai Farmers Bank (now known as Kasikorn Bank) and Bangkok Bank. Thirdly, PSL issued a Euro convertible debenture of approximately \$45.6 million dollars with a coupon of 3.25% and a yield to maturity of 6.5% with a conversion price of 350 Baht per share. This bond was issued in London and listed on the Luxembourg Exchange. Bondholders included banks, high net worth individuals and fund managers. By the end of 1995 Precious had cash equivalent to 3.273 billion Baht or roughly USD 130 million⁵⁴. “Yet another event that made 1995 memorable was the placement of our first and only order of nine newbuildings with CHEUNG-KU MARINE Pusan a South Korean shipyard. This order of ours was the kiss of death for the shipyard

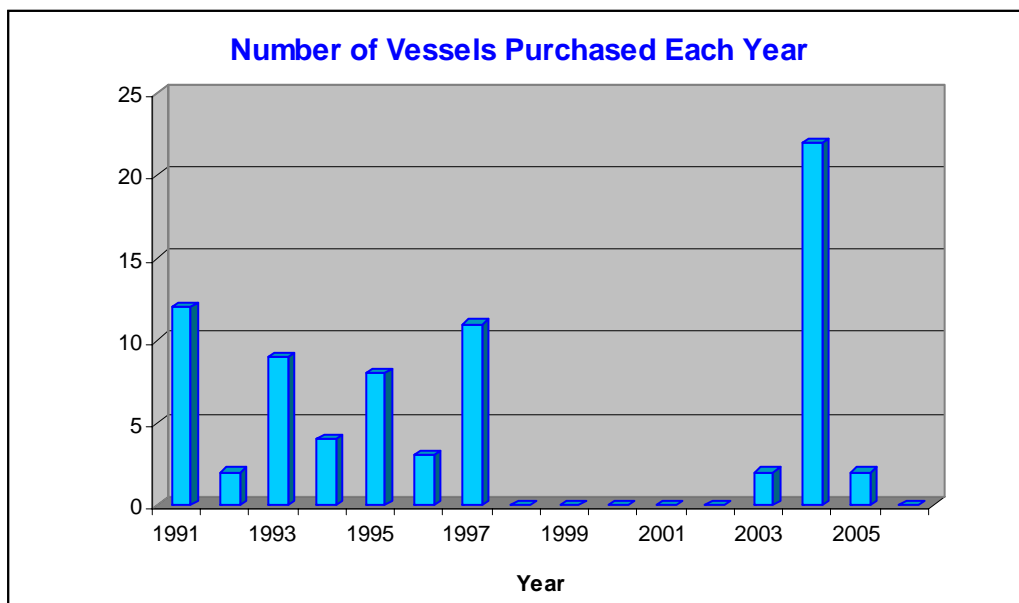
⁵² Granted only to existing shareholders.

⁵³ Exchange rate at the time was 25 Baht to the dollar.

⁵⁴ Data obtained from email from Financial Director Kushroo Wadia. See Appendix 5.

which went bankrupt in 1997 after delivering the fifth of our series of 9 newbuildings that we had ordered with them” - Khalid Hashim⁵⁵. One of these newbuildings was delivered to PSL in 1996 and another 4 in 1997. “The five newbuildings cost approximately USD 75 million, or USD 15 million a piece. These newbuildings and other 2nd hand acquisitions were funded by the unsecured debt that PSL had raised in 1995” - Kushroo Wadia Finance Director⁵⁶. By the end of 1997 PSL’s fleet stood at 45 ships. The graphs below illustrate the rapid expansion of PSL’s fleet during the mid 1990’s before and after it went public. PSL’s fleet grew from 7 at the start of 1991 to a massive 45 by 1997 - an incredible achievement by any standards.

Figure 7: Number of Vessels Purchased by PSL Each Year



PSL was expanding quite rapidly after going public in 1993. An analysis of the company’s financial ratios during this period show that prior to 1997 PSL was very robust. The table below shows PSL’s Net Book Value per share in USD and compares it to the market share price in USD.

⁵⁵ Interview with Managing Director Khalid Hashim 23 July 2006.

⁵⁶ Interview with Finance Director Kushroo Wadia 27th July 2006.

Table 4: PSL Net Book Value in USD⁵⁷

Description	1995	1996
NBV per share (USD)	0.18	0.18
NBV per share (post-adjusted vessel values) (USD)		
Market price per share (USD)	0.57	0.16

The data shows that PSL's share price in USD terms dropped quite substantially from 1995 to 1996. This could be explained by the fact that during 1995 PSL issued quite a substantial amount of unsecured debt in the form of the Euro convertible bond and the Thai Baht debenture. The Thai Baht debenture was then swapped for USD debt. This high level of debt coupled with the shaky state of the financial sector within Thailand at the time and speculation about a possible devaluation of the Baht are the likely explanations for the drop in share price.

The next table below is a summary of the key financial ratios that can be used to judge a company's financial performance.

Table 5: PSL Financial Ratios⁵⁸

Ratio	1995	1996
1. Hull to debt ratio (Times) (Vessels' NBV/Funded Debt)	0.70	0.73
2. Current ratio (Times)	3.57	2.18

⁵⁷ Table and data provided directly by Finance Director Kushroo Wadia. See Appendix 11 for complete 10-year financial ratio analysis.

⁵⁸ Table and ratios obtained directly from Finance Director, Kushroo Wadia. See Appendix 11 for complete 10-year financial ratio analysis.

3. Interest cover (Times)	4.61	3.27
4. Gearing (Times) (Funded Debt/Equity)	2.45	2.36
5. Profit margin (%) (NP/TR)	20.69%	10.89%
6. Return on total assets (ROA) (%) at the end of the year	9.02%	4.03%
7. Return on equity (ROE) (%) at the end of the year	25.45%	14.81%

The hull to debt ratio- (HDR) is defined as the current market value of the vessels divided by the outstanding amount of debt on those assets. This ratio is especially important to banks lending to shipping companies for vessel acquisition purposes as it indicates how much the market value of the vessel may diminish and still cover the debt. If the ratio falls below the 130%-150% level the bank may require additional security from the borrower⁵⁹. Prior to 1997 PSL's HDR was well below the ideal levels required by shipping finance banks. The low level of this ratio can again be attributed to the fact that PSL was very highly levered prior to the crisis in 1997.

The current ratio is a little more difficult to analyse. In good markets a high current ratio could mean that the directors are sitting on a large amount of cash that could be more profitably invested. However, in bad markets a ratio of one is considered to be very good⁶⁰. PSL's current ratio decreased from 1995 to 1996 indicated that its liabilities had grown relatively to the value of its assets. This is representative of the fact that PSL had become increasingly geared over the years in a bid to expand the fleet quite rapidly.

⁵⁹ Handbook of Maritime Economics and Business, Grammenos pg 740.

⁶⁰ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source of Shipping Finance, Grammenos pg 23-24.

The third ratio, interest cover, reveals the percentage amount of revenue that covers the interest payable on long-term debt. This ratio is useful to assess the company's ability to survive trading problems in the medium term. Generally, the higher the ratio is the better the company can handle turbulent markets⁶¹. PSL's interest cover ratio decreased from 1995 to 1996 indicating that interest payments were a slightly larger burden as a result of high levels of debt. This is also the reason why the company's debt:equity ratio also declined over the same period.

The last three ratios can be analysed together because generally for net profit margin, the return on assets and the return on equity, the higher the ratio the better. These ratios analyse the company's profits relative to sales and assets and the overall return to shareholders respectively⁶². All three ratios decreased quite substantially from 1995 to 1996. This is a reflection that PSL's high level of debt was beginning to impair its overall profitability due to higher interest and principal repayments. PSL became highly gearing during the period prior to the crisis in order to expand the business. However, the financial ratio analysis shows that high levels of debts impaired PSL's financial performance.

It is important to note that PSL's ability to rapidly expand and grow the business during the mid 1990's was also a reflection of the economic conditions in SEA and particularly in Thailand during that time. Until 1997, Asia attracted almost half of total capital flows to developing countries. The SEA economies had maintained high

⁶¹ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammenos pg 24.

⁶² Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, Grammnos pg 22-23.

interest rates attracting foreigners seeking high returns. Consequently SEA economies received a massive inflow of ‘hot money’ resulting in a dramatic upturn in asset prices. At the same time, the economies of Thailand, Malaysia, Indonesia, the Philippines, Singapore, and South Korea experienced high, GDP growth rates between 8-12% in the late 1980s and early 1990s⁶³.

In the mid-1980s, Thailand’s economy began to grow rapidly and the process of liberalising its financial system began. Starting in 1990, as part of this process, Thailand lifted capital controls so funds could flow freely in and out of the country⁶⁴. By 1995 Thailand had a GNP per capita of approximately \$3000. The country had been experiencing output growth of 8% per annum since the 1980’s coupled with inflation of less than 5% per annum since the 1980’s. The rate of growth in exports had increased from 14% per annum in the 1980s to 22% per annum in the 1990s. This impressive and stable economic performance over the past 15 years earned Thailand the highest bond ratings among the emerging markets. As of 24 June 1997, the bond rating for Thailand was A2. The only country in the region at the time that had a higher rating was Malaysia (A1)⁶⁵ and Thailand was described by the World Bank as ‘a model for economic development’.

Although Thailand saw impressive growth in the late 1980’s and 1990’s but these years also saw the income gap between the rich and poor grow wider. During this time some studies ranked Thailand as the fifth most unequal country characterized by a thriving middle class that co-existed with massive rural poverty. The Asian Crisis

⁶³ East Asian Crisis, Wikipedia. <http://www.answers.com/topic/east-asian-financial-crisis>

⁶⁴ Thailand’s Road To Economic Crisis, Bhaopichitr

<http://www.hartford-hwp.com/archives/54/113.html>

⁶⁵ Asia’s Financial Crisis, Hardy. <http://www.twinside.org.sg/title/chan-cn.htm>

that began in Thailand came about as speculators attacked the Baht convinced it was vulnerable due to poor economic fundamentals that did not justify the exchange rate. Thailand's economy had witnessed significant overspending in previous years and debt levels shot up. To add to this Thailand's current account moved into a deeper deficit, meaning interest rates had to be kept high to protect the currency that was pegged to the US dollar⁶⁶.

Within the country there were other issues. Excessive consumer and business spending coupled with high domestic debt put pressure on a weak and badly managed financial sector. Financial reform was urgently required to deal with the rising foreign investment and borrowing but nothing was done until the crisis hit. Thailand went through five finance ministers in 1996 alone, shaking investor confidence. To add to this, the rapid industrialization of the Chinese economy saw China taking over the export market that had previously been dominated by its SEA counterparts. This left the Tiger economies with no choice but to devalue to remain competitive. This was especially the case with Thailand, as it could no longer depend on foreigners to fund its growing current account deficit as they had lost confidence in the Thai economy. In Feb 1997 the IMF singled out Thailand but with no response from the government. Shortly after on the 2nd of July the Baht came under massive attack by speculators resulting in a severe devaluation. The Asian crisis had begun⁶⁷.

⁶⁶ Thailand The Crisis Starts. BBC News.
http://news.bbc.co.uk/1/hi/special_report/1997/asian_economic_woes/34487.stm

⁶⁷ Thailand The Crisis Starts. BBC News.
http://news.bbc.co.uk/1/hi/special_report/1997/asian_economic_woes/34487.stm

Impact of Asian Crisis on PSL and Freight Markets – 1997

No one would have predicted that the SEA Economies would collapse in their sprint to the developed country finish line and certainly no one foresaw the immediate paralysis and subsequent contraction of these regional economies which had been growing at an astounding 8-12% per annum. No one suspected that the sturdy exchange rates of the SEA economies would so suddenly implode. But all this did happen in 1997 and the implications on the corporate world within these economies were severe. During this period the term ‘financial restructuring’ was used to describe the difficult journey that every company attempting to save itself would embark upon. Of course not all were successful. “What set apart the successful ones was their ability to identify the problems early on, and their willingness to take onboard all concerned stake-holders through transparent and effective communications” - Khalid Hashim⁶⁸.

Just two years prior to the Crisis PSL managed to raise USD146 million by issuing Euro bonds and Thai bonds in 1995 at very favorable terms. PSL had intended to expand the fleet. Instead, PSL floundered into the Asian Contagion storm starting in mid 1997. How PSL reacted to this situation and successfully completed a financial re-structuring exercise in close co-operation with its creditors is in fact the essence of this case study.

The Asian Crisis impacted PSL in two main ways. The first and most obvious was through the severe devaluation of the Thai Baht. As mentioned above in 1995 PSL issued a Thai Baht Debenture that raised about 2.5 billion Baht. This exposure in Thai

⁶⁸ Interview with Managing Director Khalid Hashim 2nd August 2006.

Baht however, was swapped into USD liability as the company's revenue streams were denominated in USD. The heavy devaluation of the Thai Baht in July 1997 implied a loss on termination of the swap in 2000 of approximately USD 34 million.

The graph below illustrates how severely the Thai Baht devalued during the crisis

Figure 8: Baht vs. USD Exchange Rate Pre and Post Crisis⁶⁹



The second way in which the crisis impacted PSL was indirectly through its affect on freight markets. Kushroo Wadia PSL's Financial Director encapsulates the impact of the crisis on freight markets:

“If you analyse demand in the dry bulk sector over the last 30 years before 1997 it is evident that demand has steadily grown and the cycles we see are a result of fluctuations in the supply of ships. Typically the big dry bulk demand comes from raw materials, food grains and fertilizers. For the bigger dry bulk sectors iron ore and coal are the big demand drivers. The Asian

⁶⁹Sungard Bancware Erisk: Case Study Thai Baht Devaluation
http://www.erisk.com/Learning/CaseStudies/ref_case_thaiBaht.asp

Crisis caused demand for dry bulk shipping services to decrease because SEA governments contracted expenditure on infrastructure. Infrastructure development is in one of the primary drivers of demand in the dry bulk sector and as a result for the first time there was a historic contraction in demand in dry bulk markets. This caused freight markets to collapse from 1997 through till 2000” - Kushroo Waida⁷⁰.

Kushroo Wadia nicely sums up the shipping market model through his description of the impact of the Asian Crisis on freight markets. There are ten variables that affect demand and supply in the shipping market model⁷¹:

Table 6: Ten Variables In The Shipping Market Model

Demand	Supply
1. The world economy	1. World fleet
2. Seaborne commodity trades	2. Fleet productivity
3. Average haul	3. Shipbuilding production
4. Political Factors	4. Scrapping and losses
5. Transport Costs	5. Freight rates

Demand for sea transportation is a derived demand, measured in ton-miles, which largely depends on world economic activity and international trade. The world economy is the most important factor for generating demand through the import of raw materials and trade in manufactured products. Fluctuations in seaborne commodity grade also influence demand for shipping. These fluctuations can be both short and long term in nature. Typically short-term fluctuations are caused by seasonal production, consumption and trade whilst long-term fluctuations can be the result of changes in consumer tastes or changes in the sources of supply and demand for raw

⁷⁰ Interview with Finance Director Kushroo Wadia 27th July 2006.

⁷¹ Maritime Economics, Stopford pg 115.

materials and finished products. The third variable that affects demand is average haul and is defined as the distance over which certain commodities must be transported. Since demand for sea transportation is measured in ton-miles, average haul directly affects demand for shipping. Political events such as war, revolution, or economic reform can also have short and long run effects on demand for shipping. Finally, transportation costs also directly affect demand for shipping. Shipping must compete against other modes of transport. The economies of scale in sea transportation due to the increase in size of vessels built recently and bulk shipping have reduced the transportation cost significantly which is essentially the comparative advantage of shipping⁷².

The supply of shipping is the amount of ton-miles of transportation service offered by the shipowners' fleet. Naturally the stock of fleet at any point in time is the tonnage available for trading. The world fleet changes over time due to scrapping and losses and shipbuilding activities. Scrapping and losses contract supply whilst newbuilding activities increase supply. Therefore the stock of fleet, K_t at any point in time is:

$$K_t = K_{t-1} - S_t - L_t + D_t$$

Where: K_t = Stock of fleet this period S_t = Scrapping Activities L_t = Losses

K_{t-1} = Stock of fleet last period D_t = Newbuilding deliveries

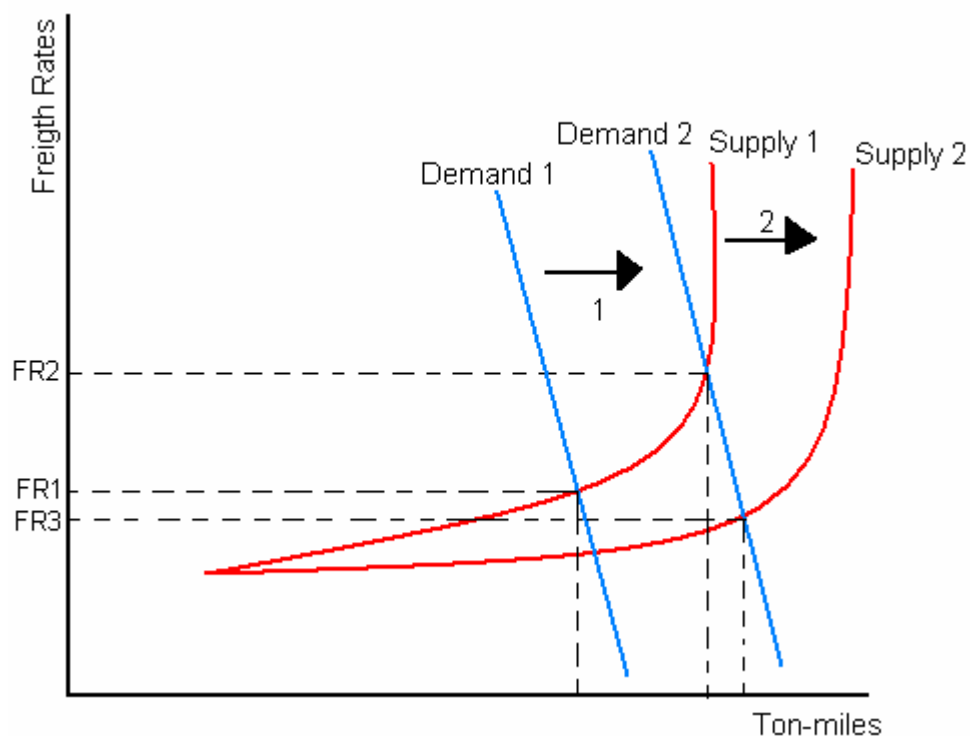
The proportion of the fleet sent for scrapping depends on variables such as scrap prices and age of fleet, second-hand and newbuilding prices, and technical obsolescence. Newbuilding activity largely depends on the shipyards' order books,

⁷² Lecture Notes: Shipping Economics, Lecture 2 slides 19-26, Cass Business School.

freight rates and productivity of shipyards. Fleet productivity is the fourth variable affecting supply of shipping and relates to the speed at which the fleet operates. The higher fleet productivity the greater supply of shipping services. Fleet productivity is positively related to freight rates and negatively related to bunker prices. Finally, freight rates indirectly influence all four other factors affecting supply and are therefore also a determinant in overall supply in shipping services⁷³.

As Kushroo Wadia mentions above, typically shipping cycles are the result of fluctuations in supply. This is illustrated below:

Figure 9: Long-Run Freight Market Equilibrium



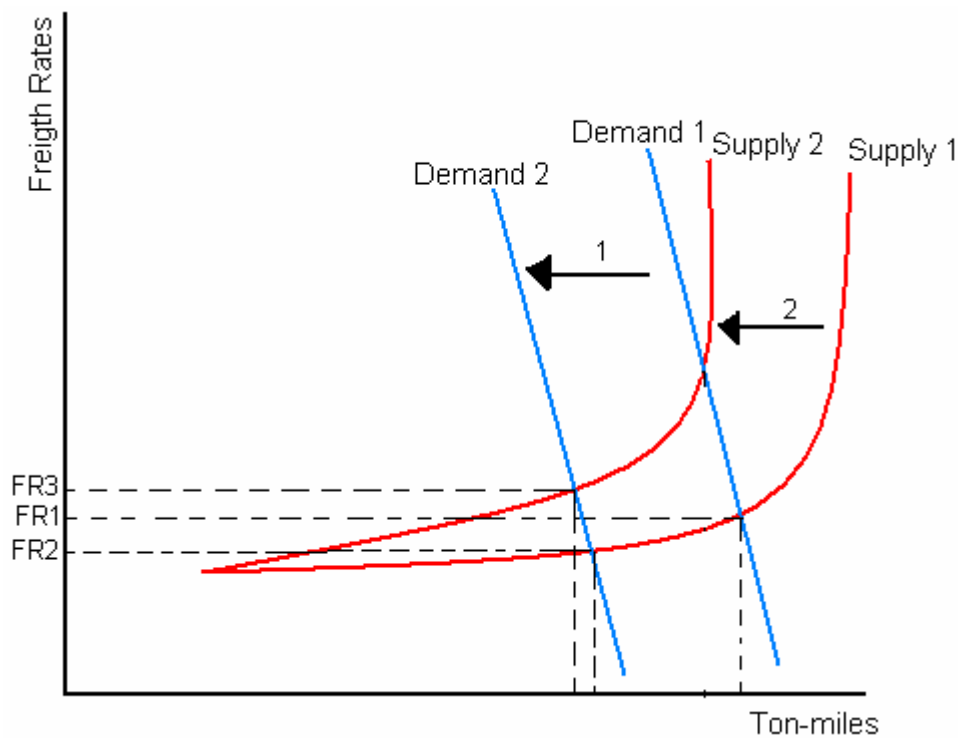
Initially demand grows moving from D1 to D2. This causes freight rates to rise from FR1 to FR2. Ship owners order new tonnage to take advantage of surging freight

⁷³ Lecture Notes: Shipping Economics, Lecture 2 slides 30-38, Cass Business School.

rates. This in turn, causes supply to expand moving from S1 to S2 and brings freight rates down even further to FR3.

However, during the Asian Crisis demand was affected negatively as a result of the sharp contraction in infrastructure expenditure by SEA governments. This is illustrated below:

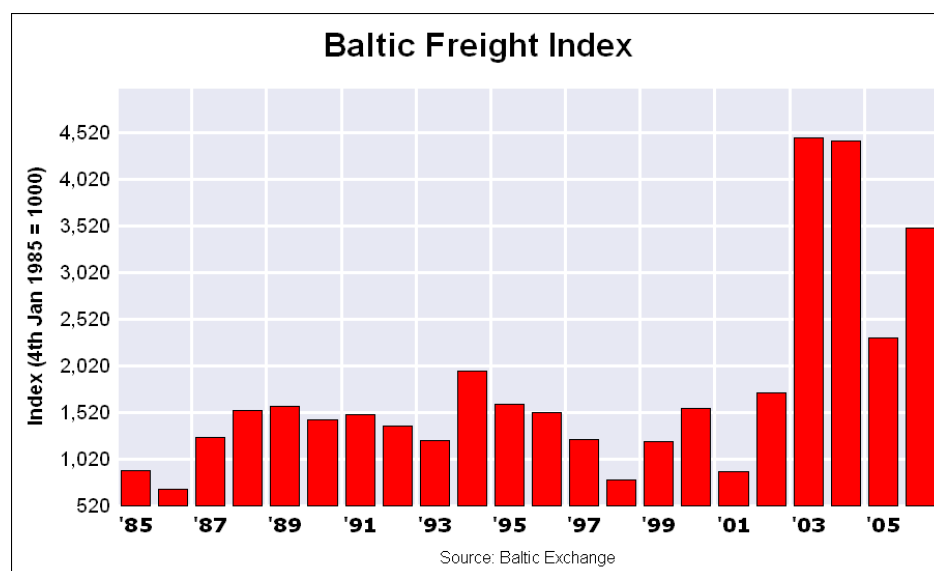
Figure 10: Long Run Freight Market Equilibrium – Impact of Asian Crisis



As demand contracted from D1 to D2 during the Crisis this caused freight rates to go down from FR1 to FR2. Eventually the market would have adjusted as ship owners scrapped older, inefficient tonnage causing supply to contract moving S1 to S2 and restoring equilibrium at FR3. However, due to the severity of the crisis this adjustment took much longer and freight markets were in a sustained down cycle through till 2001.

The Baltic Freight Index below shows how the slump in shipping markets that occurred during the Asian Crisis really lasted through till 2001.

Figure 11: Baltic Freight Index⁷⁴



The slump in dry bulk markets in the mid 90's was extended due to the severity of the crisis. Another aspect of the Asian Crisis that affected the shipping industry was severe devaluation of the Korean won. This resulted in new-building values to be depressed temporarily and this in turn pushed down second-hand values.

“This meant that we could not sell off our assets to repay our loans. It also meant that refinancing- i.e. borrowing against the value of the asset to repay your existing loan to extend and thereby extend the final maturity of the loan; was not an option because our asset values had come down⁷⁵. The money borrowed in 1995 was due for repayment in November 2000. By 1999 we realised that we were facing a situation where we had to either default on the repayment of or get their maturities extended. We were technically insolvent.

⁷⁴ Source: Clarksons SIN 2005 - <http://www.clarksons.net/ts/charts/13921-200681617317.gif>

⁷⁵ i.e. the level of debt outstanding on the asset is greater than the value of the asset.

Consequently in April 1999 we started the restructure process.” – Kushroo Wadia.

What brought PSL to near insolvency was really its unsecured debt, i.e. the USD 145.6 million raised in 1995. The money raised in 1995 was used to acquire vessels and expand the fleet. What is important to note is the timing of the expansion. It took PSL two years to use up the money raised in 1995 and expand. Therefore the cash flow generated from the assets only began flowing into the company sometime in late 1997. This meant that PSL only had a short period of time to employ the acquired assets for debt servicing purposes, as the instruments issued in 1995 were short-term in nature, with maturity in the year 2000. To make matters worse freight markets were in a sustained down cycle during this time.

“We were well and truly caught with a lot of high quality young ships in our fleet in a collapsing freight market. The value of these assets contracted sharply...We were in a lot of trouble. To add to our woes, Atle Jebsen’s company to whom we had chartered two of our brand new ships on long-term contract at relatively healthy rates went belly up in early 1999 leaving us with an unplanned USD 2 million hole in our cash flow. The only saving grace was the New Building contract that we had with the shipyard in South Korea where we had advanced some USD 24 million for ships under construction. Mercifully for us, the shipyard went bankrupt and we were able to obtain a full refund of our advances including interest. This sum of USD 28 million is what kept us afloat during the second half of 1998 and the first half of 1999. Once again, we were saved not by design but by default, this time by the failure of the South Korean shipyard. That is when we realised we needed to

tackle our financial structure in haste if we were to be one of the survivors in the New Millennium” - Khalid Hashim⁷⁶.

In hindsight PSL’s mistake was its aggressive short term borrowing strategy. PSL did not structure our debt in such a way that the cash flows of the assets would repay that debt. “Perhaps our mistake was our hesitation in purchasing the vessels but even if the assets had been purchased immediately this would not have made a difference as typically 4-5 years is not enough time to generate sufficient cash flows to repay shipping term loans”- Kushroo Wadia Finance Director⁷⁷.

As mentioned above, by the Managing Director Khalid Hashim, the demise of the South Korean shipyard helped PSL survive the depressed markets that prevailed during 1997, 1998 and 1999. The return of the \$28.5 million via their refundment bank guarantees acted as the lifeline for PSL to meet their other financial obligations during that period of time. The balance four vessels were never built. “And in case you are wondering whether the shipyard was a fly by night affair let me correct your impression with the fact that it had a history of over fifty years of building ships” - Khalid Hashim⁷⁸.

The effects of the Asian Financial Crisis began spreading like wild fire throughout emerging markets with Brazil, Mexico and Russia becoming some of its victims. The Russian government defaulted on their bonds in 1998 and as a result all corporate

⁷⁶ Interview with Managing Director Khalid Hashim 2nd August 2006 & Anatomy of a Successful Financial Restructure, Hashim Khalid. <http://www1.preciousshipping.com/articles.asp>

⁷⁷ Interview with Finance Director Kushroo Wadia 27th July 2006.

⁷⁸ Interview with Managing Director Khalid Hashim 2nd August 2006.

paper in the emerging markets suddenly became worthless⁷⁹. With the proceeds from the refundment bank guarantees from the shipyard PSL were able to buy back \$27.5 million dollars of our corporate debt for \$11 million in cash in 1998, i.e. at a discount of 60 cents to the dollar. This helped PSL shore up its profit and loss account and converted a loss-making year from shipping operations into a profitable one due to this stroke of good fortune⁸⁰.

Table 7: Consolidated Financial Statement of PSL 1993 - 2006⁸¹

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Assets	2,380,361	2,939,258	8,347,371	9,175,215	9,659,334	8,621,060	7,605,455	6,691,354	5,802,968	5,103,836	5,867,920	13,375,779	13,780,608
Total Current Liabilities	488,672	556,889	1,012,179	1,596,360	2,215,057	2,079,645	7,705,131	1,369,174	1,022,449	796,118	1,426,283	1,649,639	540,935
Fixed Assets	2,176,719	2,667,937	4,502,784	5,396,134	8,616,006	7,737,443	6,425,955	5,478,767	4,765,597	4,207,699	4,617,999	11,517,589	12,496,748
Total Borrowings	789,845	1,131,926	5,745,108	6,419,979	12,233,115	8,052,560	6,976,929	5,774,319	4,896,588	4,024,519	3,422,350	7,561,172	3,293,986
Shareholders Equity	1,466,555	1,680,007	2,291,546	2,407,230	-3,510,049	-231,344	-223,529	365,206	474,038	676,585	1,957,866	5,292,511	9,945,705
Book Value Per Share (Baht)	6	6	4	5	-7	0	0	1	1	1	4	10	20
Dividend Per Share (Baht)	4	6	5	3	0	0	0	0	0	0	1	2	3
Net Profit	174,232	284,457	509,191	353,176	-5,801,595	3,274,925	-60,712	-366,642	673,318	502,434	1,536,560	4,749,771	6,176,607

All figures in Thai Baht '000s

The highlighted cells in the year 1997 illustrate the impact of the Asian Financial Crisis on PSL's liabilities due to the severe devaluation of the Thai Baht in July that year. The highlighted cells in the year 1998 show how PSL converted a loss making year into a profitable one through buying back some of its corporate debt at a heavy discount.

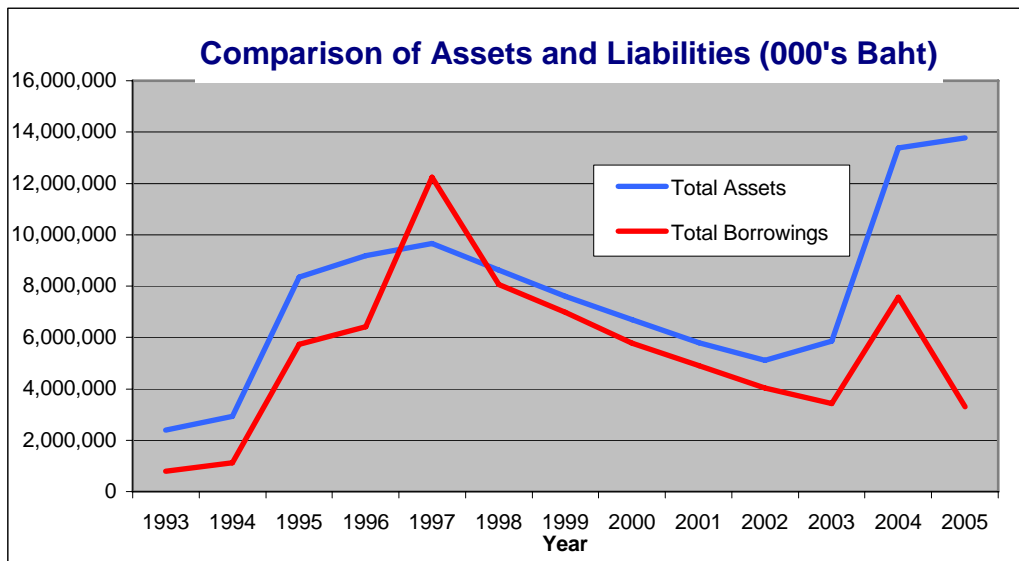
⁷⁹ Anatomy of A Successful Financial Restructure, Hashim Khalid.

<http://www1.preciousshipping.com/articles.asp>

⁸⁰ Interview with Managing Director Khalid Hashim 2nd August 2006.

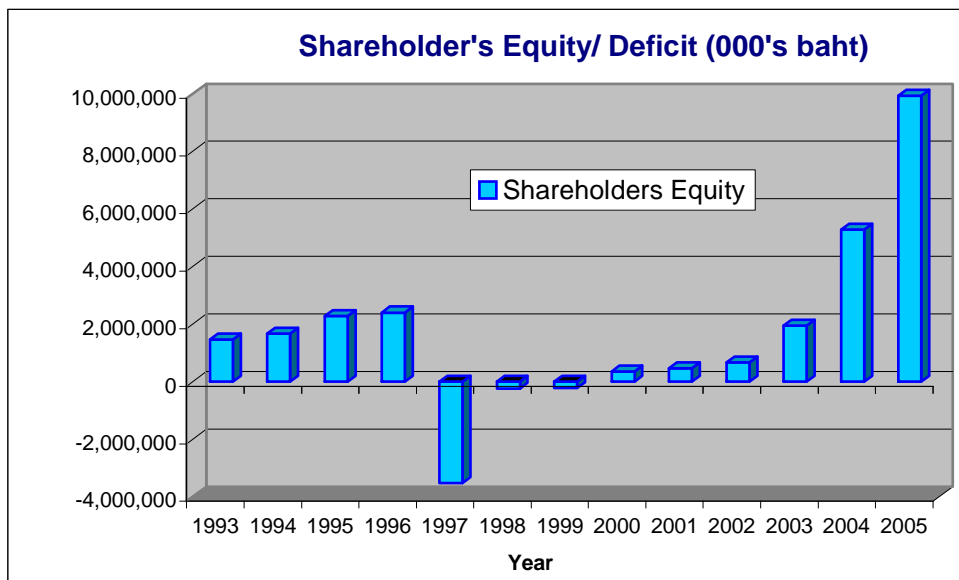
⁸¹ Source: PSL Financial Statements, See Appendix 1&2.

Figure 12: PSL's Assets Vs Total Borrowing⁸²



This peak in PSL's total borrowings in 1997 was due to the consequent loss of \$34 million on the swap of its Thai Baht debentures debt to USD as a result of the severe devaluation of the Thai Baht in July that year.

Figure 13: PSL's Shareholder Equity / Deficit⁸³



⁸² Source: PSL Financial Statements, See Appendix 1&2.

⁸³ Source: PSL's Financial Statements, See Appendix 1&2.

The inflation of PSL's liabilities relative to its assets in 1997 because of the devaluation in the local currency as a result of the Asian Crisis resulted in a massive deficit in shareholders equity.

A look at PSL's financial ratios during the crisis and shortly after illustrates the true extent of the impact of the crisis.

Table 8: PSL Net Book Value in USD⁸⁴

Description	1997	1998	1999	2000
NBV per share (USD)	0.14	0.14	0.13	0.18
NBV per share (post-adjusted vessel values) (USD)				
Market price per share (USD)	0.07	0.02	0.03	0.02

The share price data shows that 1997 onwards PSL share price in USD terms gradually dropped and remained at low levels. Initially this was due to the fact that the severe devaluation of the Thai Baht implied a huge loss upon termination of the currency swap of about USD 34 million. Furthermore the devaluation meant that PSL liabilities when expressed in Thai Baht terms were heavily inflated. Shortly after the crisis hit PSL realised that it was technically insolvent and had to embark on a financial restructure in order to avoid defaulting on its secured and unsecured loans. This was due to the fact that freight markets had taken a turn for the worse as a result of the Asian Crisis and the loans were short-term in nature. Depressed freight

⁸⁴ Table and data provided directly by Finance Director Kushroo Wadia. See Appendix for complete 10-year financial ratio analysis.

markets coupled with a massive amount of debt meant that PSL was in bad shape and this is reflected in the low share price during this period.

Table 9: PSL Financial Ratios⁸⁵

Ratio	1997	1998	1999	2000
1. Hull to debt ratio (Times) (Vessels' NBV/Funded Debt)	1.06	1.18	2.75	1.48
2. Current ratio (Times)	0.31	0.24	0.11	0.56
3. Interest cover (Times)	2.42	1.85	1.82	2.42
4. Gearing (Times) (Funded Debt/Equity)	3.50	2.83	1.20	1.46
5. Profit margin (%) (NP/TR)	-6.75%	3.82%	-6.48%	1.11%
6. Return on total assets (ROA) (%) at the end of the year	-2.19%	1.18%	-2.19%	0.49%
7. Return on equity (ROE) (%) at the end of the year	-9.17%	5.29%	-9.03%	1.58%

From the period 1997 to 2000 PSL's HDR gradually increased. This can be explained by the fact that PSL was able to pay back its secured creditors through the bank refundment guarantee from the South Korean shipyard which went bankrupt and could not deliver the remaining 5 vessels as well as the proceeds from scrapping vessels during the period.

PSL's current ratio was very low from 1997 to 2000. This was due to the inflation of its liabilities as result of the currency swap and the heavy devaluation of the Thai Baht. Furthermore PSL scrapped quite a few vessels during this period shrinking its fleet quite substantially. This also impaired its current ratio.

⁸⁵ Table and ratios obtained directly from Finance Director, Kushroo Wadia. See Appendix 11 for complete 10-year financial ratio analysis.

PSL's interest ratio decreased after 1997 but did pick up again by 2000. The decrease in the ratio was simply due to PSL's high level of debt coupled with depressed freight markets during the same period causing revenues to decrease and interest payments more difficult to sustain. PSL's debt:equity ratio during the same period steadily decreased reflecting that PSL worked very hard to repay its creditors gradually reducing its debt. Again this was achieved through funds generated from the refund by the South Korean shipyard and scrap proceeds which were used to buy back its unsecured debt at heavily discounted levels and repay secured creditors.

The profit margin, return on assets and return to equity show a steady upward trend except for the hitch in 1998. PSL managed to convert 1998 into a profitable year by repurchasing some of its unsecured debt at discounted levels and repaying its secured creditors as a result of default by the South Korean shipyard which refunded some USD 28 million to PSL which essentially served as a lifeline during this difficult period. The improvement of these three ratios shows that during the period PSL de-levered quite substantially and therefore improved its profitability.

By 1999 PSL had run out of money to buy back our outstanding corporate debt at discounted levels and the sellers of the debt itself had become quite reluctant to part with it at those levels and it seemed that a financial restructure was the only way forward.

The Search For A Financial Advisor – 1998-1999

PSL started searching for a Financial Advisor during the last quarter of 1998 and three companies were short-listed. PSL made a detailed presentation to each of the three companies that entailed the entire restructuring exercise that they were contemplating. “The main objective of the presentation was to make an extremely transparent presentation of our Company, warts and all” - Khalid Hashim. After this PSL invited each of the candidates to make them an offer for the job of Financial Advisor. However, along with each proposal PSL had insisted that each candidate bring to the table an under written USD 25 million cash injection. “We wanted them to put their money where their mouth was for two reasons; firstly it would commit them to the process and ensure a financially viable Company post restructure; and it would give our Creditors that much more confidence in any proposal that our Financial Advisors would put up” - Khalid Hashim. PSL ultimately selected BankBoston, Singapore to act as their Financial Advisor. The factors influencing the final selection were geographical proximity, reputation and size. The selection was ratified by PSL’s Board of Directors meeting by end of May 1999. Having chosen a financial advisor the search for a viable solution to PSL’s financial predicament had begun⁸⁶.

The Debt Restructure⁸⁷ - 1999 - 2000

By 1999 it had become crystal clear that a debt restructure was inevitable as the company was technically insolvent. PSL and its subsidiaries embarked upon the restructuring of the following debt in July 1999:

⁸⁶Anatomy Of A Successful Financial Restructure, Hashim Khalid.

<http://www1.preciousshipping.com/articles.asp>

⁸⁷ All the information presented in this section was obtained from the Debt Restructure Summary given directly by PSL’s Finance Director Kushroo Wadia (See Appendix 6) and through interviews with Managing Director Khalid Hashim 2nd August 2006.

1. **Secured Loans from 6 Banks:** Approximately USD 75 million with DnB Nor, Credit Agricole (Calyon), BnP, Credit Suisse, ExIm Bank and HSBC secured against the vessels owned by the subsidiaries of PSL.
2. **Secured Loans from HSBC:** Approximately USD 3.55 million secured against the apartments owned by PSL's subsidiary.
3. **Unsecured Corporate Loan from Deutsche Bank:** USD 2.5 million due on 16th June 2000.
4. **Unsecured Thai Baht Debentures:** USD 46 million worth of Debentures to be restructured. This was the balance left after PSL's buy back programme.
5. **Unsecured Euro Convertible Bonds:** USD 30.776 million redeemable at a premium of 17.27% on 30th Nov 2000. USD 30.776 million was left to be restructured after PSL's buy back programme.
6. **US Dollar/ Thai Baht Currency Swap:** Baht 2.5 billion approximately USD 100,000 million as on the swap date was due for settlement on 9th November 2000. Based on prevailing exchange rates, a termination of the swap was expected to result in loss on settlement of approximately USD 34 million.
7. Apart from the above, an underwritten secured loan of up to USD 25 million was made available by Fleet National Bank (previously known as BankBoston) which was used directly for the cash payout that was required as part of the restructure programme, against the mortgage of ships owned by PSL and its subsidiaries.

PSL's secured and unsecured debt with the various banks mentioned above was easily restructured as shown below:

1. **Secured Loans:**

All principal payments from 15th July 1999 up to 31st December 1999 were deferred. All interest payments continued in the normal course. PSL worked closely with its creditors to reschedule and rework the repayment scheme whereby all loans were to be repaid within the year 2004. The repayment instalments were reworked to reflect earnings from the respective vessels secured with each lender. Repayments in quarterly instalments commenced on 31st March 2000. Additionally the concept of recapture of excess cash flows was introduced via annual limits for each lender. All loans with each lender were cross-collateralised. Finally financial covenants on debt service, liquidity reserves, restrictions on existing and additional debt were introduced by the lenders.

2. **Secured Loans from HSBC:**

All USD loans were converted to Baht currency to reflect the currency of the collateralised assets. A loan of 127.86 Baht resulted from the conversion. A repayment schedule was worked out to complete repayment of the entire loan within the year 2001. Payments had to be entirely funded out of the sale proceeds of certain apartments, not occupied by PSL's staff. Accordingly, sales were undertaken during the year 2000 and Baht 126.54 million was repaid during the year.

3. **Unsecured Corporate Loan from Deutsche Bank**

PSL reached a settlement with Deutsche Bank to retired the entire debt by a payment of USD 1 million on or before 31st of December 1999 in a full and final instalment. This was done and all claims are now settled.

In contrast the restructuring of PSL's unsecured debt was a much more complicated process and is what is of real interest. It was the company's unsecured debt that was the real problem as the devaluation of the Thai Baht and consequent settlement loss on the swap caused the company's liabilities to inflate substantially. For this reason more attention is paid to the analysis of PSL unsecured debt restructure, as it was a far more intricate process.

In July 1999 upon analysing the balance sheet PSL and its financial advisor – Bank Boston came to the conclusion that USD 36 million of its USD 107 million unsecured debt had to be removed to make the company's capital structure economically viable. This essentially meant that the value of PSL's liabilities exceeded the value of its assets by USD 36 million. PSL and its financial advisor insisted that at least USD 60 million out of the USD 107 million unsecured debt be restructured via option 1 and the balance USD 44 million be restructured via option 2 where:

Option 1 consists of:

- Cash Payout of 40%.
- Balance 60% being termed out as a 2.5-year maturity, 0% coupon redeemable convertible debenture. The implied conversion date was Jan 2003. The agreed 'call price' at which PSL could retire the RCDs prior to the conversion date was USD 15 million – a discount of about 58 c to the dollar.

Option 2 consists of:

- A 5-year commercial loan, partially amortizing with a coupon of 7.81%.

As mentioned above the impact of the Russian Government defaulting on its debt in 1998 rendered all emerging market paper worthless. This allowed PSL to embark on a buy-back scheme to repurchase some of its unsecured debt at discounted levels. Originally PSL had issued a total of USD 145.6 million of unsecured debt in 1995. The Euro convertible bond entailed a liability of USD 45.6 million. The Thai Baht Debentures that were issued entailed a liability of USD 100 million as PSL had entered a swap agreement. By July 1997 the severe devaluation of the Thai Baht implied a further loss on termination of the swap of USD 34 million. This would imply a total sum of USD 179.6 to be restructured. However, by the time PSL began to restructure its unsecured debt in July 2000 there was only about USD 103 million to be restructured including the loss upon settlement of the swap. This was due to the fact that PSL was able to repurchase quite a lot of its unsecured debt at heavily discounted levels, typically at 40c to the dollar. PSL was able to repurchase some of this debt because of the USD 28.5 million bank refundment from the South Korean Shipyard, which went bankrupt and could not deliver the 4 remaining vessels PSL had ordered. Additionally PSL scrapped a number of vessels to obtain more funds for this purpose. The table below details the exact figures of PSL's buy back scheme:

Table 10: PSL's Buy Back Scheme

	Outstanding			Price Paid For Debt
Thai Baht	Unsecured Debt as of	Original Value of	Value of Debt	Bought Back @ 0.40 cents
Debentures	July 2000	Unsecured Debt	Bought Back	to the dollar
Baht million	1480.38	2500	1019.62	407.704
Dollar million ⁸⁸	37	100	63	25.2
Euro	Outstanding			

⁸⁸ These figures are based on an exchange rate of 40 Baht to the dollar as of July 2000 when the restructure began.

Convertible Bond	Unsecured Debt as of July 2000			
Dollar million	31	45.6	14.6	5.84
Premium	4			
	35			
SWAP	Outstanding Unsecured Debt as of July 2000			
Dollar million	31.25			
Total Unsecured Debt				
Dollar million	103.25			

4. Unsecured Thai Baht Debentures

After the Buyback program of the Company continued debentures of face value of Baht 1,480.28 million were outstanding and restructured. Under the first option available for restructure, the Debenture holder could opt to take cash equal to forty percent of the face value of his holding and the balance in the form of a zero coupon redeemable convertible debenture (RCD). This option was exercised by holders of Debentures aggregating Baht 533 million. Under the second option available for restructure, the Debenture holder could opt to convert the amount of face value of the Debenture into a loan with a maturity date of 5 years and providing for intermittent repayment instalments in the years 2001, 2004 subject to financing available on the vessels released by reach respective secured lender on the full repayment of all their respective loans. Accordingly from the Thai Baht Debentures, Baht 751.08 was converted to a Commercial Loan. There were several major conditions that were

imposed on PSL and the ship owning subsidiaries during the life of the Commercial Loan⁸⁹. The most notable of these conditions was that 80% of PSL's excess cash flow was to be recaptured by its secured creditors, 10% was to be recaptured by its unsecured creditors and the balance 0% was to be retained by PSL to do as it pleases⁹⁰. Interest accrued and payable on the Debentures up to the effective date of the restructure – July 17 2000 was paid to the Debenture holders on the effective date. It was a condition precedent of the new loan and the restructure of the secured debt, that at least USD 60 million of the entire consolidated unsecured debt of PSL would have to be retired through the option of cash plus RCD method. In case of a shortfall in this amount, such shortfall had to be compulsorily allocated to the cash plus RCD offer, divided pro-rata among the Thai Baht Debentures and the unsecured liability arising out of the termination of the currency swap. Accordingly, Baht 196.20 million of unsecured Thai Baht Debentures were compulsorily allocated to option 1 of the restructure.

Table 11: Restructured Thai Baht Debentures

Thai Baht Debenture	Total Amount To Be Restructured	Option 1 40% Cash, 60% RCD	Option 2 Loan 5 Years 7.81% interest
Thai Baht Million	1480.28	729.2	751.08
Voluntary		533	
Involuntary		196.2	

⁸⁹ These conditions can be found in the Appendix.

⁹⁰ Email from Managing Director Khalid Hashim to Shareholders regarding conversion of RCD July 03 2002. See Appendix 7.

In USD terms at the time of the restructure – July 2000 the dollar Baht exchange rate was approximately 40.08 Baht = 1\$⁹¹. The total amount of Thai Baht Debentures to be restructured in terms of USD was therefore USD 37 million.

Table 12: Restructured Thai Baht Debentures USD Terms

Thai Baht Debenture	Total Amount To Be Restructured	Option 1 40% Cash, 60% RCD	Option 2 Loan 5 Years 7.81% interest
USD Million	37	18.226	18.7734
Voluntary		13.322	
Involuntary		4.903	

5. Unsecured Euro Convertible Bonds

Just before restructure, Bonds of face value USD 30.776 million were outstanding. This gave rise to a legal claim of USD 34.894 million inclusive of the redemption premium of 13.38%. Under the restructure terms, the Bondholders were paid cash equal to forty percent of their legal claim and the balance in the form of zero percent coupon RCD. Accordingly, bondholders were paid about USD 13.96 million in cash and the balance was converted to USD 20.93 million worth of RCD.

Table 13: Restructured Euro Convertible Bond

Euro Convertible Bond	Total Amount To Be Restructured	Option 1 40% Cash	Option 1 60% RCD
USD Million	34.894	13.9576	20.9364

6. US Dollar/Thai Baht Currency Swap

The swap was terminated on 14th of February 2000 resulting in a settlement amount of USD 3.125 million. This settlement amount of USD 31.25 million was converted into

⁹¹ Federal Reserve Statistics, http://www.federalreserve.gov/releases/h10/hist/dat00_th.htm

an unsecured loan carrying an interest rate of 7.81% p.a up to the effective date of restructure, which was July 17 2000. The Swap Holder now lender, had the choice to accept either option 1 –(40% cash payout and the remaining 60% in the form of RCD) or option 2 –(convert the loan into a Commercial loan). However, as mentioned above a strict condition of the restructure of PSL’s secured debt required at least USD 60 million be retired through option 1 and in the event of a short fall, the shortfall had to be compulsorily allocated to the cash plus RCD offer, divided pro-rata among the unsecured Thai Baht Debenture and unsecured liability arising out of the termination of the currency swap.

The entire loan was converted into a Thai Baht loan⁹² and the Swap holder exercised the right to choose the second option of conversion into a Commercial loan, subject to the compulsory allocation of option 1. Accordingly Baht 999.20 was converted into the Commercial Loan and Baht 101.32 million was received in cash and the balance of Baht 151.98 was converted into RCD. The conditions imposed on PSL and its subsidiaries under the terms of the restructure with respect to recapture of excess cash flow mentioned above in 3. also apply.

Table 14: Restructured Currency Swap

USD/Thai Baht Currency Swap	Total Amount To Be Restructured	Option 1 40% Cash, 60% RCD	Option 2 Loan 5 Years 7.81% interest
Thai Baht Million	1252.5	253.3	999.2
USD Million	31.25	6.31	24.92

7. New Loan From BankBoston Of USD 25 Million

⁹² Conversion occurred at the exchange rate of 40.08 Baht to the dollar.

A loan was granted by PSL’s financial advisor BankBoston of an amount not exceeding USD 25 million was to be drawn on the effective date of the restructure. This loan was to be exclusively used as part of the restructure for payment of the 40% cash proportion of option 1 to unsecured Thai Baht Debenture holders and the Swap holder who had chosen option 1 voluntarily or involuntarily. Accordingly USD 24.50 million was drawn down on the 14th of July 2000 for this purpose. 10 vessels then valued at USD 34.62 million were mortgaged and cross-collateralized in favour of BankBoston. The term of the loan granted by BankBoston was five years. Repayments were to be made via quarterly instalments of USD 600,000 and the balance repaid as bullet before the end of year 5 from the drawdown date.

This completes the procedure adopted for PSL’s restructure of both its secured and unsecured debt. It is evident that restructuring the secured debt was a relatively painless process and that the restructuring of the unsecured proportion of its debt was a far more complicated process. The method by which PSL restructured its unsecured debt allowed it to effectively eliminate about USD 60 million of debt from its balance sheet as this much was allocated to option 1. PSL did this by paying some out in cash but also managed to eliminate USD 36 million by paying zero percent interest on the RCD as shown below:

Table 15: PSL’s Unsecured Debt Restructure

Type Of Unsecured Debt	Proportion of Debt			Proportion of Debt Allocated to Option 2
	Allocated to Option 1	40% Cash Payout	0% RCD	
Thai Baht Debenture	18.226	7.2904	10.9356	18.773
Euro Convertible Bond	34.894	13.9576	20.9364	0
Currency Swap	6.31	2.524	3.786	24.92
Total	59.43	23.772	35.658	43.693

On the evening of July 17 2000 after the restructure had been completed PSL's debt effectively looked like this:

Table 16: PSL's Debt Structure After Unsecured Debt Restructure Was Completed

Debt	Amount
Loan From BankBoston	24.5
0% RCD	35.658
Commercial Loan	43.693
Total	103.851

PSL's financial restructure was voted The Best Restructure for 2000 by Marine Money in their Annual review⁹³.

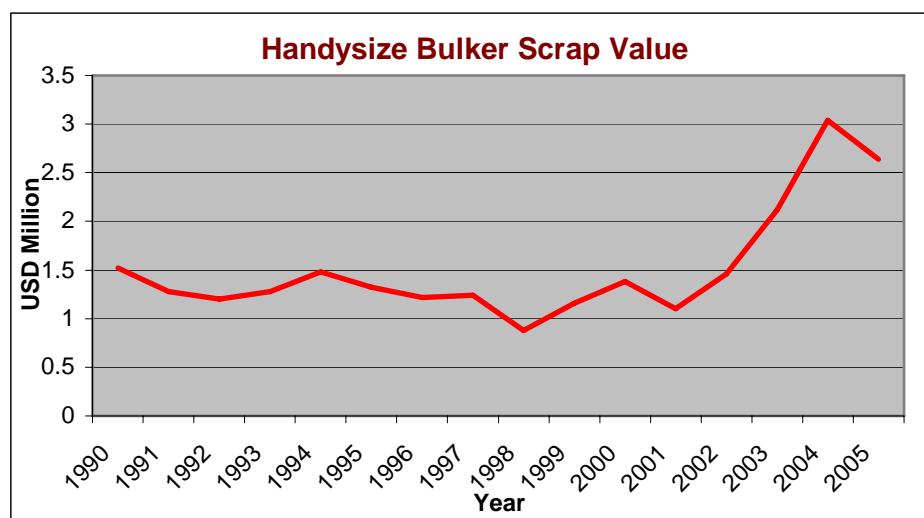
Completing The Unsecured Debt Restructure – 1999-2003

PSL's fleet reached its peak size of 45 vessels in 1997. After this point however PSL began the exercise of de-leveraging and as a result began to contract its fleet size. Several vessels were scrapped prior to the restructure and throughout the years until the conversion date for the RCD, January 2003. Due to depressed freight markets in 1997 in conjunction with the Asian Crisis scrap prices were low. However, scrap values gradually firmed up over the years that enabled PSL to raise funds to buy back some of its unsecured debt prior to the restructure. The proceeds generated from further demolitions after 2000 were largely recaptured by secured creditors and to a lesser extent by unsecured creditors. This helped PSL to meet its debt restructure

⁹³ See Appendix 9 for Award.

obligations and reduce its total outstanding secured and unsecured liabilities⁹⁴. The graph below illustrates historical handy size bulker scrap values.

Figure 14: Historical Handy size Bulker Scrap Values⁹⁵



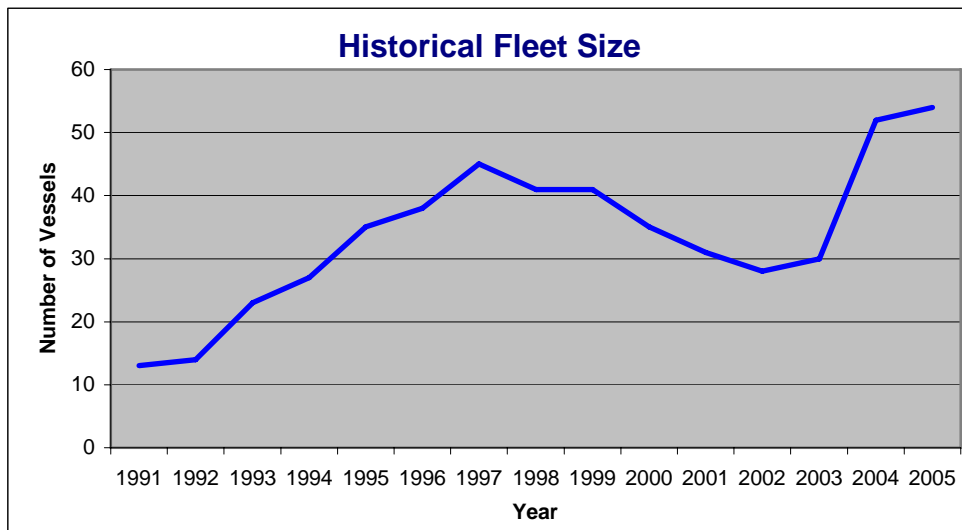
In an effort to reduce the size of its liabilities and repay both its secured and unsecured creditors PSL's fleet size shrank from its peak in 1997 of 45 vessels to a significantly smaller 28 in 2003⁹⁶.

⁹⁴ Interview with Managing Director, Khalid Hashim 3rd August 2006.

⁹⁵ Source: Clarksons SIN 2005 Timseries Demolition Scrap Prices See Appendix.

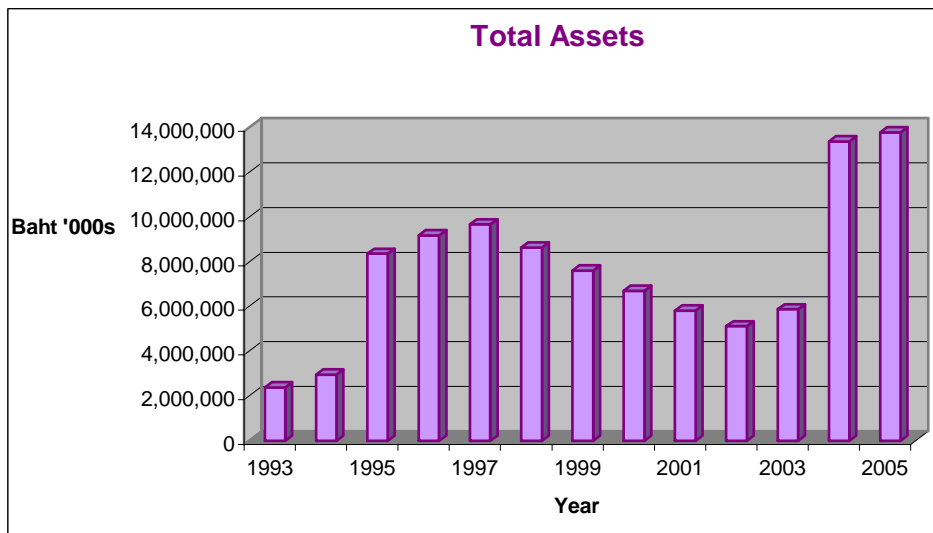
⁹⁶ Interview with Managing Director Khalid Hashim – and data from Kushroo Wadia on historical fleet size, See Appendix 4.

Figure 15: PSL's Historical Fleet Size⁹⁷



The graph below shows PSL's fleet reaching its peak in 1997 and shrinking dramatically during and after the Asian Crisis, reaching an all time low in 2003.

Figure 16: PSL's Total Assets⁹⁸



The graph above shows PSL's assets growing in the 1990's until the Asian Crisis in 1997. After this point PSL's assets were reduced to their lowest level in 2002.

⁹⁷ Data Obtained From Finance Director Kushroo Wadia – See Appendix 4.

⁹⁸ Source: PSL's Financial Statements, See Appendix 1&2.

As table 12 above shows, when the debt restructure was completed on July 17 2000 PSL's outstanding bonds had been converted into the Redeemable Convertible Debentures with a face value of about USD 36 million. Upon creation of the RCDs RCD holders made PSL a very advantageous offer to retire the entire amount for a mere USD 15 million i.e. at 41.7 cents to the dollar prior to the conversion date. Over the course of the next few years PSL was able to buy back parts of the RCD. The outstanding face value by July 2002 was about USD 26 million consisting of USD 14.5 million of USD denominated bonds and about USD 11.5 million of Thai denominated bonds⁹⁹. Although PSL had been able to retire a portion of the RCD's it was unable to buy back the entire amount despite such favourable terms. The reason for this was quite simple. Under the terms of the agreed restructure all of PSL's assets i.e. their vessels were pledged to the Secured and Unsecured lenders of the company. Furthermore all future excess cash flows were to be 90% recaptured by the lenders leaving very little (10% of the excess cash flow) 'free' cash available to buy back the RCDs. Hence raising a total of USD 15 million to retire the entire amount of RCDs created in 2000 was near impossible¹⁰⁰.

In hindsight it is evident that not enough thought was given to what would happen to the value of the RCDs if and when they were converted into shares. When the instrument was created PSL's management were under the impression that the company would easily be able to raise the required funds to buy back the RCDs. However, all of the company's assets were already pledged to both secured and unsecured creditors and hence there were no remaining assets against which to secure

⁹⁹ Article from Managing Director to shareholders regarding conversion of RCDs. 03 July 2002. See Appendix 7.

¹⁰⁰ Article from Managing Director to shareholders regarding conversion of RCDs. 17 July 2002. See Appendix 7.

funds to buy back the RCDs. As the conversion date of January 2003 for the outstanding RCDs was drawing near the implications of conversion on the company and its major shareholders became glaringly obvious.

The dilution impact to existing shareholders would depend on the prevailing share price at the time of conversion. However, because PSL share price was so low towards the end of 2002 the dilution of the existing shareholders stake in the company would have been unacceptably large (90% or more) and thus had to be avoided¹⁰¹. Theoretically the RCD holders, after getting their converted shares, would be able to get their money back by selling those shares on the market¹⁰². PSL realised this was the problem because at the time stocks of PSL were fairly illiquid with even the slightest selling or buying pressure resulting in significant volatility in share price. The fear was that if RCD holders were to all try and sell their shares on the market PSL's share price may plummet below its lowest level of Baht 5 per share and the RCD holders would end up recovering only a small fraction of the value of their bonds via the sale of the converted shares¹⁰³.

The existing RCD conversion scenario was a lose-lose situation for all parties involved. The RCD holders were to get shares equal to their outstanding debt only to find that they were unable to sell the same at anything close to par value resulting in a huge loss. PSL's existing shareholders would get hurt on two fronts: Firstly via the dilution from the conversion of the RCDs into shares and secondly via the erosion in share price when the converted shares were sold on the market by all the RCD

¹⁰¹ Interview with Managing Director Khalid Hashim 3rd August 2006.

¹⁰² Article from Managing Director to shareholders regarding conversion of RCDs. July 17 2002. See Appendix 7.

¹⁰³ Article from Managing Director to shareholders regarding conversion of RCDs. 03 July 2002. See Appendix 7.

holders. Finally PSL stood to have its net book value per share diluted as well as being faced with a much larger equity base to service in the future. It was alarmingly clear that there would be no winners in such a situation¹⁰⁴.

The simple reality was that conversion of the RCDs was not a solution that would benefit anyone. It was evident that during the debt restructure the entire focus was on re-paying the secured and unsecured lenders and hardly any attention was paid to how the RCD holders would get paid out. The RCD in theory looked good but in practice was a very poor proposition.

According to the cash flows of the company in 2002 it was estimated that PSL would be left with about USD 67 million of secured and unsecured debt by the end of the year i.e. pre conversion of the RCDs. It must be remembered that during 1998 PSL had a total outstanding debt of about USD 260 million and so had very effectively reduced its total outstanding liabilities by almost USD 200 million in just 4 short years. 2 years from the drawn down date of the USD 24.5 million facility made available by Bank Boston on 1st July 2000 PSL had managed to reduce that loan to a mere USD 12.5 million. PSL was therefore in a strong position to take on more debt by converting the RCDs into a loan.

“When the RCDs do convert, the existing shareholders could face a potential dilution of between 50% -87%...The existing shareholders should therefore be very concerned about this impending threat of dilution from the conversion of the RCDs during the first half of 2003. It would be in their interest that the share price at the time of conversion should reflect the net book value so that

¹⁰⁴ Article from Managing Director to shareholders regarding conversion of RCDs. 03 July 2002. See Appendix 7.

there is no economic dilution to the value of their holdings. The net book value in the first half of 2003 would be very close to Baht 85 per share...We should seriously look at converting the RCDs into a loan....” - Khalid Hashim¹⁰⁵.

The loan proposed by management had the following features:

- Three year moratorium from middle 2003
- Four year amortisation from middle 2006
- Small coupon payable from the middle of 2003 until the loan has been fully paid back.

The moratorium was essential because PSL could not apply any of their resources or cash flows towards repaying the RCD/loan till they had finished repaying their secured and unsecured lenders, which they were expecting to have done by end 2005. The RCDs currently had a zero coupon so a small coupon entailed a clear improvement for the RCD holders and was all PSL could possibly afford based on their restructure terms¹⁰⁶. The RCD was therefore converted into a commercial loan with an interest coupon at market levels and maturity of 5 years¹⁰⁷.

It is worthwhile noting that PSL never defaulted on a single interest coupon or delayed any payment to its secured and unsecured creditors. DnB Nor one of PSL’s secured creditors has had a relationship with PSL since the late 1980’s. David Reeve Tucker currently the Head of the Shipping Credit Division at DnB Nor London used

¹⁰⁵ Article from Managing Director to shareholders regarding conversion of RCDs. 03 July 2002. See Appendix 7.

¹⁰⁶ Article from Managing Director to shareholders regarding conversion of RCDs. 03 July 2002. See Appendix 7.

¹⁰⁷ Interview with Managing Director Khalid Hashim 3rd August 2006.

to work as the Head of Shipping for the Singapore office and describes the relationship as a good one and confirms that PSL had been very prompt in their payments.

“As far as secured lenders were concerned no interest or principal payments were ever missed. PSL’s management is first class. They are open and transparent. If there is any information you require they are quick to give you that” – David Reeve Tucker.

When asked how PSL’s management behaved during the Asian Crisis Mr. Tucker said, “In 1999 when management realised they had a problem they openly negotiated with their creditors. Renegotiating PSL’s secured debt was a relatively painless process”¹⁰⁸. DnB Nor have a lot of experience in the shipping industry and were ranked number 1 in 2005 as leaders in global marine syndicate activity¹⁰⁹. In terms of shipping finance it is useful for shipping companies to work with banks that are appreciative of the cyclical nature and volatility of the shipping industry so that when the market does come down or when external circumstances like the Asian Crisis unfold renegotiating is a relatively straightforward process. Not all banks that lend to shipping companies are truly familiar with the industry and therefore not all of PSL’s creditors during the debt restructure were as easy to work with.

“My impression of Bangkok Bank¹¹⁰ was that they did not understand the industry. Due to the ongoing crisis in the Thai banking sector Bangkok Bank had other severe problems and perhaps PSL did not get the attention they deserved. Because Bangkok Bank did not understand the industry a lot of time was spent trying to get them to understand the various scenarios that were

¹⁰⁸ Interview with David Reeve Tucker DnB Nor Nor London Office 07 August 2006.

¹⁰⁹ DnB Nor NOR grabs top spot. O’Cinneide, TradeWinds.

¹¹⁰ Bangkok Bank was one of PSL’s Thai Baht Debenture Holders.

presented in terms of repayment. This caused severe delays in the restructuring process”¹¹¹ – David Reeve Tucker.

Despite such setbacks PSL completed a successful debt restructure and made a huge comeback shortly after.

PSL Makes A Comeback 2003-2006

During the year 2003 PSL realised that dry bulk freight markets had the potential to really turn hot! But with the golden handcuffs attached to the secured and unsecured restructured loans PSL had zero access to any cash as everything was being taken away to prepay and repay the existing loans. PSL’s management team in an attempt to break free from their golden handcuffs approached Krung Thai Bank (KTB) for a USD 100 million loan against a mortgage of all their existing assets¹¹². The USD 100 million facility from KTB was meant to be drawn down in two parts. Part A of USD 65 million was to be used to refinance all of PSL’s existing loans. Part B consisting of USD 35 million was to be used to buy second hand ships at anytime PSL wished to do so up until end December 2005. Part B of the facility offered by KTB was essentially a ‘pool of cash’ for PSL to employ at the appropriate time to invest in second hand ships. There was no pressure on management to invest immediately¹¹³. This gave PSL the room to breathe and, more importantly, the flexibility to get the timing of any potential acquisitions exactly right.

¹¹¹ Interview with David Reeve Tucker DnB Nor London Office 07 August 2006.

¹¹² Interview with Managing Director Khalid Hashim 3rd August 2006.

¹¹³ Krung Thai Banks USD 100 Million Facility And Its Implications For PSL, Hashim Khalid.
<http://www1.preciousshipping.com/articles.asp>

The implications of securing the KTB facility for PSL were very significant. The main benefit of the facility was that it freed PSL from its obligations to its existing lenders. It also allowed PSL:

- The opportunity to make timely acquisitions and rejuvenate it's fleet
- To retain excess cash flow from its operations to expand the business
- To declare a dividend as and when it was warranted which was not possible under the terms of it's existing loans
- To stop its debt equity ratio from falling below 1:1 and becoming virtually debt free by the end of 2004.
- To reduce its annual interest burden as the KTB loan was less costly than the coupons on the existing loans.
- To remove any un-hedged foreign currency exposure from their existing loan portfolio which was at the time heavily weighted in un-hedged Thai Baht as compared to their income stream of USD.

Another beneficial feature of the KTB facility, as compared to its existing loans, was the one year moratorium it came with and the longer repayment schedule of 6.5 years after the end of the one year grace period. This allowed PSL to recapture free cash available in the company to purchase additional second hand vessels over and above the available USD 35 million. PSL was extremely excited to have secured the USD 100 million facility from KTB and Part A of the facility was immediately drawn down and the existing creditors paid off¹¹⁴.

¹¹⁴ Krung Thai Banks USD 100 Million Facility And Its Implications For PSL, Hashim Khalid. <http://www1.preciousshipping.com/articles.asp>

By January 2004 PSL realised that the remaining USD 35 million of the facility was not enough to really expand the business. They approached KTB at the end of 2003 once again and raised a further \$170 in the early part of 2004 for the purchase of second-hand vessels. The 2nd loan was also granted with a 1 year moratorium to be used to buy second-hand vessels to take advantage of surging freight rates. The loans from KTB had a coupon of 237.5 basis points over LIBOR¹¹⁵. USD 98 million of the loan was used to purchase 15 second-hand ships from Malaysia International Shipping Corp Bhd, which has no relationship with PSL¹¹⁶. “PSL did the MISC deal in end 2003 but got shareholder and other approvals in March 2004. We took physical delivery of all 15 ships in about 6 weeks time between April and mid May 2004” - Khalid Hashim¹¹⁷. After the purchase of the MISC vessels the average age of the fleet rose to 18.5 from 16.5 years. Additionally, the new vessels were expected to increase revenues by at least 40%¹¹⁸. PSL also purchased a further 9 second-hand ships in the market between September 2003 and June 2004.

Having employed both facilities from KTB, PSL’s debt stood at \$265 million as of September 2004. PSL almost doubled its fleet growing from 28 to 52 ships between September 2003 and September 2004, world record by any standards. The rate at which PSL expanded it’s fleet was only paralleled by the rate at which it began to repay its debt. By the end of 2004 PSL had reduced its outstanding debt to USD 193 million. By June 2005 this figure had been reduced further still to a mere USD 126

¹¹⁵ Article from Managing Director to shareholders entitled: PSL News update : New credit line USD 250 million. See Appendix 8.

¹¹⁶ PSL obtains \$170m to buy 15 more vessels as rates surge, Bunyamanee Soonruth, http://www.bangkokpost.com/Business/28Feb2004_biz53.php

¹¹⁷ Interview with Managing Director Khalid Hashim, 3rd August 2006.

¹¹⁸ PSL obtains \$170m to buy 15 more vessels as rates surge, Bunyamanee Soonruth. http://www.bangkokpost.com/Business/28Feb2004_biz53.php

million¹¹⁹. In 2005 PSL bought a further 2 vessels bringing the fleet strength to the current 54 ships. In late 2005 PSL secured a new revolving facility with several shipping banks spearheaded by DnB Nor Bank for \$250 million, which could be drawn down by PSL anytime until the end of 2006. This facility was secured in accordance with PSL's stated rejuvenation scheme to bring the average age of its fleet down to 10-12 years and control daily operating costs. This facility was secured at a rate of 100-140 points over LIBOR¹²⁰. "In terms of the USD 250 million facility we put in a grid based margin. This means that if the company is financially strong it pays a lower margin and vice versa. This is the essence of trying to price risk" - David Reeve Tucker¹²¹.

PSL plan to be debt free of their KTB loans by Sept 2006. Currently PSL is generating \$10 million EBITDA per month¹²². PSL's comeback was recognized by the world. PSL was voted the 6th best shipping company in the world, two years – 2004 and 2005 - in a row, by MarineMoney. In 2005 PSL also won 'Best Corporate Governance Report' and Best Performance' awards from the SET. To top it all off, Managing Director Khalid Hashim was also nominated amongst just eight other candidates for 'The Best CEO' award by the SET for 2005¹²³. A last financial ratio analysis illustrates that PSL did really make a strong comeback.

¹¹⁹ Article from Managing Director to shareholders entitled: PSL News update : New credit line USD 250 million. See Appendix 8.

¹²⁰ Article from Managing Director to shareholders entitled: PSL News update : New credit line USD 250 million. See Appendix 8.

¹²¹ Interview with David Reeve Tucker DnB Nor Nor London Office 07 August 2006.

¹²² Interview with Managing Director Khalid Hashim 3rd August 2006.

¹²³ All awards can be found in Appendix 9.

Table 17: PSL Net Book Value in USD¹²⁴

Description	2001	2002	2003	2004	2005
NBV per share (USD)	0.16	0.15	0.18	0.33	0.55
NBV per share (post-adjusted vessel values) (USD)			0.28	0.86	1.05
Market price per share (USD)	0.03	0.05	0.88	1.01	0.77

As the table above shows PSL's share price finally began to increase in 2002. In 2003 freight markets had started to improve after a prolonged down cycle as a result of the Asian Crisis. This coupled with the fact that PSL's debt restructure had been a success explain why share price picked up at this point. In 2004 freight markets witnessed an all time high. PSL expanded its fleet to take advantage of rising freight rates resulting in a peak in share price. In 2005 freight rates were still high but lower than the previous year, explaining why PSL's share price came down slightly.

Table 18: PSL Financial Ratios¹²⁵

Ratio	2001	2002	2003	2004	2005
1. Hull to debt ratio (Times) (Vessels' NBV/Funded Debt)	1.56	1.64	1.75	1.69	4.30
2. Current ratio (Times)	0.82	0.79	0.76	1.07	2.17
3. Interest cover (Times)	4.74	6.03	7.68	13.32	20.74
4. Gearing (Times) (Funded Debt/Equity)	1.31	1.20	0.90	1.13	0.28
5. Profit margin (%) (NP/TR)	7.15%	-0.62%	27.12%	51.32%	55.66%

¹²⁴ Table and data provided directly by Finance Director Kushroo Wadia. See Appendix 11 for complete 10-year financial ratio analysis.

¹²⁵ Table and ratios obtained directly from Finance Director, Kushroo Wadia. See Appendix 11 for complete 10-year financial ratio analysis.

6. Return on total assets (ROA) (%) at the end of the year	3.00%	-0.25%	13.28%	38.54%	40.72%
7. Return on equity (ROE) (%) at the end of the year	7.55%	-0.59%	28.70%	82.55%	67.34%

The data above shows that PSL's HDR gradually increased over the period. This is because PSL was able to pay of its debt at a faster rate and the rising market value of its vessels as a result of strong freight markets. PSL's current ratio has also steadily increased over the same period and is currently quite high. This again is due to the fact that in recent years freight markets have been very strong and PSL has almost become debt free.

PSL's interest cover ratio has increased dramatically showing that the company is in a very strong position with regards to debt repayment. Again this is due to the fact that strong freight markets have resulted in higher revenues indicating that the company is back on it's feet and will be able to cover interest payments even if markets did take a turn for the worse in the medium term.

The fourth ratio, debt/equity shows a steady downward trend indicating that over the years PSL has paid of both its secured and unsecured creditors and has a healthy capital structure with room for debt injection in the future.

The profit margin, return on assets and return to equity have also increased dramatically from 2001 to present. Currently PSL has very high values for these ratios indicating freight markets have been quite strong over the last few years. This also reflects that PSL is almost debt free, as net income is not impaired by any heavy debt obligations. These ratios have also been strengthened by the fact that PSL's

fleet has expanded back to 54 vessels after shrinking to a mere 28 during the crisis. This has been a very timely expansion as freight markets have been exceptionally strong over the last couple of years. This last financial analysis shows that even though PSL was very weak during the crisis it has bounced back and is now very robust.

What Does The Future Hold For PSL?

As a conclusion to the report several options of what possible directions PSL may take in the near future are presented:

Option 1: **Sell the company.** Cash in and reap the rewards.

Option 2: **Rejuvenate the fleet** – scrap the older ships and acquire new or younger second hand ships by employing the USD 250 million revolving credit facility from DnB Nor nor.

Option 2 could be done by:

1. Scrapping a few ships and using the proceeds combined with the DnB Nor facility to buy a few young ones.
2. Accelerate the fleet renewal scheme by finding one or more private companies that own between 3 and 10 ships and buy their assets. Recently Hong Kong-based dry bulk operator Pacific Basin was dubbed as ‘a compelling takeover target’ by a leading analyst at Merrill Lynch as it’s share price continued to trade at a significant discount to net asset value. Merrill Lynch floated both

Thoresen Thai and Precious Shipping as possible buyers as both have a stated ambition to reduce the age of their fleets¹²⁶.

The possible takeover of Pacific Basin by PSL or other dry bulk competitors is an interesting point worth elaborating on particularly from a shipping investment and finance perspective. The manner in which the shipping industry, a volatile and unpredictable industry as managed its relations with the international equity markets over the past decades has not been very successful. The reason for this failure extends far beyond the shortcomings of underwriters and the thin nature of the many shipping deals offered to investors. The real problem is that the great majority of publicly listed shipping companies have a market capitalization that is too small to secure the interest of large international investment institutions. Although there are a large number of listed shipping companies already in existence, most of them are barely large enough in terms of equity value, liquidity and size in order to be noticed by the leading investment groups. In recent years financial institutions have tended to focus their attention on larger capitalization companies-i.e. companies with a market capitalization of at least 5 billion US dollars. The shipping sector offers very few companies that comply with this size and liquidity pre-requisite. As of Nov 2005 there are only six companies that comply with these standards¹²⁷. The table below lists these shipping companies and their market capitalisations:

¹²⁶ 'A compelling takeover target', Shuker Liz. Trade Winds.

¹²⁷ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance, pg 32-33, Grammenos.

Table 19: Shipping Companies With Market Cap Over USD 5 Billion

Company Name	Market Capitalisation USD Million
AP Moeller Maersk	41,093.03
Carnival Corporation	33,748.07
Malaysia International Shipping	9,448.43
Royal Caribbean Cruises Ltd	9,436.57
Mitsui OSK Lines Ltd	8,210.37
Nippon Yusen KK	7,035.40

This essentially means that consolidation is necessary in the shipping industry if it is to secure institution investment support on a long-term basis. The high gearing of shipping companies, the general resistance to consolidation and the highly variable profitability due to the cyclical nature of the shipping industry means that public equity markets typically under value shipping stocks, despite the fact that these are factors shipping companies cannot escape from. Therefore it seems that consolidation is the only means that will allow shipping companies to tap into equity markets as a reliable and stable source of capital¹²⁸. The possible takeover of Pacific Basin by PSL or other competitors is evidence that the dry bulk sector is ripe for consolidation and that companies operating the dry bulk sector may have finally realised the need to go large.

3. Issue a convertible bond at a significant conversion premium to the existing market price due to PSL's good standing and strong Balance Sheet. Further, the good standing of the company may result in a 0% coupon rate on the converts.
4. Issue another plain vanilla bond.
5. Issue more equity.

¹²⁸ Shipping Investment and Finance Lecture Notes: Capital Markets As A Source Of Shipping Finance pg 32-33, Grammenos.

Option 3: **Dual Listing:** PSL could list on another market, which would result in a more accurate and better valuation of the company. This could improve the share price in Thailand especially if the decision was made to listing in the US.

Option 4: **Privatise:** The shareholders could think of privatising the company as many of the shipping companies in the Far East have done in the recent past such as IMC and Wah Kwong that privatised from the Hong Kong market and PCL from the Singapore market¹²⁹.

These are merely some of the possible options available to PSL at this moment in time. As to which option PSL is currently exploring, that is for you to find out.

Conclusion:

PSL have clearly bounced back after being brought to their knees in 1997 during the Asian Crisis. Having come to the end of this case study there are a few points that are worth reflecting on. The first and foremost is that external events can impact even the most robust companies. PSL did the right thing by swapping their Baht denominated debt into a USD liability as their revenue stream was denominated in USD. However, this worked against them when the Baht devalued in 1997. Another lesson to be learnt from this case study is that shipping finance, due to the cyclical nature and unpredictability of the shipping industry, needs to be long term in nature. Finance with a maturity of 4-5 years is difficult, if not impossible, for shipping companies to service in time. It is absolutely vital for shipping companies to match the cash flow of their assets to the maturity of their liabilities. Another thing to notice about PSL is

¹²⁹ Interview with Managing Director, Khalid Hashim 3rd August 2006.

that while many shipping companies make their real profits through trading vessels i.e. buying low and selling high, this is not a characteristic strategy of PSL. PSL makes it's money from the chartering business and is effective at doing this because it is a very low cost operator.

Finally the most important aspect of this case study, and something that all companies can learn from, is that the management of a company is what makes or breaks it. PSL's management is first class. An interesting thing to note is that during the crisis PSL did not let go of a single employee! Christopher Spratt a joint Managing Director at Tysers, a London based maritime insurance broking firm has had a relationship with PSL for about twenty years. "We like the people and their partnership approach. Precious involve us in their business as a partner and not just a third party service provider. PSL truly make their relationships with us more than one dimensional"¹³⁰. And it is the way PSL manages their relationships with all their service providers that allow them to be to so successful. "What make PSL so successful is the total commitment of their management to the venture, their focus and their determination to be professional" - Managing Director Chris Spratt Tysers¹³¹. PSL is without a doubt a top tier shipping company that ranks amongst the very best in the industry. It was a pleasure and profound learning experience to work with them and be able to write this paper.

¹³⁰ Interview with Managing Director Tysers London Office Christopher Spratt August 11 2006.

¹³¹ Interview with Managing Director Tysers London Office Christopher Spratt Tysers August 11 2006.

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Appendix 1: PSL Financial Statements 1993 – 2000

จุดเด่นทางการเงิน

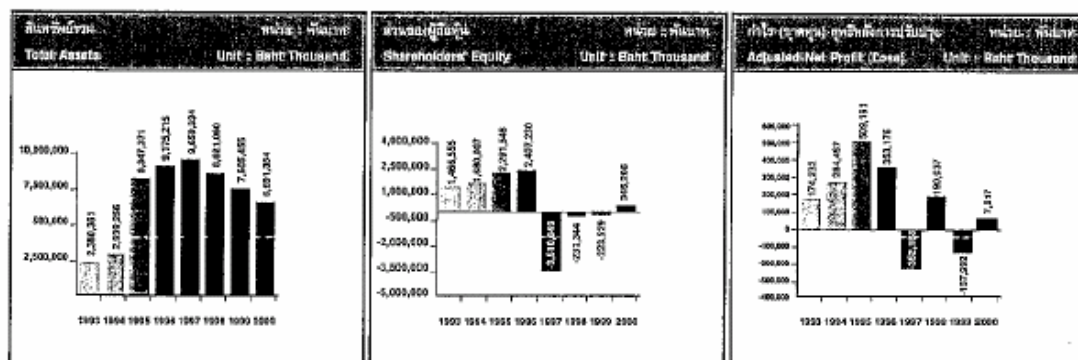
FINANCIAL HIGHLIGHTS

หน่วย : พันบาท
Unit : Baht Thousand

	2543 2000	2542 1999	2541 1998	2540 1997	2539 1996	2538 1995	2537 1994	2536 1993
รายได้จากการเดินเรือ Vessel Operating Revenues	4,115,748	3,590,598	4,101,576	3,099,110	2,806,098	2,318,202	1,506,713	072,018
ต้นทุนการเดินเรือ Vessel Operating Costs	2,506,688	2,432,880	2,722,280	1,848,476	1,726,546	1,198,500	852,279	548,112
กำไรขั้นต้น Gross Profit	1,609,060	1,157,718	1,379,397	1,250,634	1,080,452	1,149,702	653,434	423,906
รายได้รวม Total Revenues	4,196,088	3,741,324	4,618,323	3,351,782	3,244,415	2,461,606	1,524,644	979,518
ต้นทุนรวม (ไม่รวมค่าเสื่อมราคา) Total Costs (excl. depreciation)	3,579,748	3,200,656	3,723,088	3,023,549	2,342,546	1,543,697	963,604	630,594
ค่าเสื่อมราคา Depreciation	608,723	678,660	705,197	660,421	546,693	408,718	276,583	174,692
กำไร (ขาดทุน) จากอัตราแลกเปลี่ยนที่ยังไม่เกิดขึ้นจริง Unrealized Exchange Gain (Loss)	(436,662)	(161,546)	2,395,307	(5,462,852)	0	0	0	0
รายการพิเศษ Extra-ordinary items	62,403	236,826	689,581	13,445	0	0	0	0
กำไร (ขาดทุน) สุทธิ Net Profit (Loss)	(366,692)	(60,712)	3,274,925	(5,801,595)	353,175	509,191	284,457	174,232
กำไร (ขาดทุน) สุทธิหลังการปรับปรุง Adjusted Net Profit (Loss) *	7,617	(137,992)	190,037	(352,188)	353,176	509,191	284,457	174,232
สินทรัพย์หมุนเวียนรวม Total Current Assets	782,538	811,426	502,601	678,354	3,486,676	3,609,080	184,957	152,199
สินทรัพย์ถาวร (สุทธิ) Fixed Assets (net)	5,478,767	6,425,955	7,737,443	8,616,008	5,396,134	4,502,784	2,667,937	2,176,719
สินทรัพย์รวม Total Assets	6,691,354	7,605,455	8,621,060	9,669,334	9,175,215	8,347,371	2,939,256	2,380,361
หนี้สินหมุนเวียนรวม Total Current Liabilities	1,369,174	7,705,131	2,079,645	2,215,057	1,596,350	1,012,179	556,889	488,672
เงินกู้ยืมรวม Total Borrowings	5,774,319	6,976,929	8,052,560	12,293,115	6,419,979	5,745,106	1,131,926	789,845
ส่วนของผู้ถือหุ้น Shareholders' Equity	365,208	(223,529)	(231,344)	(3,510,049)	2,407,230	2,291,546	1,080,007	1,466,555
ทุนที่ชำระแล้ว Paid-up Capital	520,000	520,000	520,000	520,000	520,000	520,000	260,000	260,000
มูลค่าตามบัญชีต่อหุ้น (บาท) Book Value per share (Baht)	7.02	(4.30)	(4.45)	(67.50)	46.29	44.07	64.62	56.41
กำไร (ขาดทุน) ต่อหุ้น (บาท) Earnings per share (Baht)	(7.05)	(1.17)	62.98	(111.57)	6.79	17.39	10.94	7.34
เงินปันผลต่อหุ้น (บาท) Dividend per share (Baht)	0.00	0.00	0.00	0.00	3.00	4.50	6.00	4.00
อัตรากำไรขั้นต้น (ร้อยละ) Gross Profit Margin (%)	39.10	32.24	33.63	40.35	38.49	48.96	43.40	43.61
อัตรากำไรสุทธิ (ร้อยละ) Net Profit Margin (%)	0.18	(3.69)	4.11	(10.51)	10.89	20.69	18.65	17.79
อัตราผลตอบแทนต่อหุ้น (ร้อยละ) Return on Equity (%)					15.40	29.64	18.97	14.86
อัตราผลตอบแทนจากสินทรัพย์ (ร้อยละ) Return on Total Assets (%)	0.11	(1.70)	2.08	(3.74)	4.03	9.02	10.69	9.04

* ตัวเลขแสดงผลของรายการที่ไม่นับรวมผลกำไรขาดทุนจากอัตราแลกเปลี่ยนที่ยังไม่เกิดขึ้นจริงและรายการพิเศษ

* Figures derived by adjusting unrealized loss/gain on exchange difference and extra-ordinary items to calculate Adjusted Net Profit (Loss)



Appendix 2: PSL Financial Statements 1994 – 2003

Precious Shipping Public Company Limited										
Total Liabilities Vs. Market Capitalisation										
Particulars	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Figures (USD Million)										
EBITDA	25.36	47.80	52.41	43.77	32.43	28.89	36.58	33.20	28.20	46.63
Net Profit (Loss)	11.43	20.88	14.48	-15.26	6.41	-6.35	1.26	6.62	-0.47	24.78
Secured Loans	36.57	81.12	85.97	116.93	98.75	81.90	118.55	92.36	72.46	86.12
Unsecured Loans (Baht & Euro Bonds)	0.00	144.93	140.93	139.65	112.53	103.10	14.38	18.02	20.48	0.00
Current Liabilities	13.80	13.91	38.52	18.44	26.47	22.61	12.70	9.75	9.30	12.27
Total Liabilities	50.37	239.96	265.42	275.02	237.75	207.61	145.63	120.13	102.24	98.39
Equity Share Capital	10.20	20.39	20.39	20.39	20.39	20.39	20.39	20.39	20.39	20.39
Total Shareholders' Equity/Net worth	65.88	89.86	94.40	67.71	72.27	61.30	91.08	84.33	77.18	95.53
Yield/Opex Analysis										
Number of Vessels at the end	29	35	38	45	41	41	35	31	28	30
Average Number of Vessels during the year	24.82	30.67	35.44	41.86	41.79	41.00	38.66	33.37	29.22	28.39
Avg Earnings per day per ship basis 350 days(USD)	5,931	7,306	6,661	5,742	4,834	4,808	5,760	5,855	5,854	7,870
Avg Operating Expenses per day per ship(USD)	2,857	3,060	3,118	2,889	2,556	2,590	2,648	2,589	2,604	2,670
Number of Equity Shares (Million)	260	520	520	520	520	520	520	520	520	520
Ratio Analysis										
Average cost of Debt (% per Annum)	6.76%	5.99%	6.47%	6.70%	6.83%	7.14%	6.53%	5.28%	4.21%	6.05%
Weighted Average cost of Capital (% per Annum)	11.66%	8.74%	8.75%	8.61%	8.58%	8.95%	9.08%	9.14%	8.75%	10.19%
Share price at the end (THB)	32.00	14.30	4.28	3.15	0.70	1.00	1.08	1.43	2.00	35.00
Average Share Price during the year (THB)	14.39	13.74	9.77	4.27	1.39	1.00	1.05	1.32	1.77	10.95
Market Capitalisation (THB Million)	8,320.00	7,436.00	2,223.00	1,638.00	364.00	520.00	559.00	743.60	1,040.00	18,200.00
Market Capitalisation (USD Million)	326.27	291.61	87.18	34.44	9.87	13.79	12.94	16.76	24.02	458.00
Total Liabilities (USD Million)	50.37	239.96	265.42	275.02	237.75	207.61	145.63	120.13	102.24	98.39
Exchange Rate at the end of the year	25.5000	25.5000	25.5000	47.5560	36.8900	37.7098	43.1934	44.3597	43.3039	39.7378
Earnings per Share (USD)	0.0440	0.0401	0.0279	-0.0293	0.0123	-0.0122	0.0024	0.0127	-0.0009	0.0477
Dividend Per Share (USD)	0.0024	0.0018	0.0118	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0315
Dividend Per share (THB)	0.0600	0.0450	0.3000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.2500
Debt Equity Ratio	0.7645	2.6702	2.8116	4.0617	3.2898	3.3868	1.5989	1.4245	1.3247	1.0299

Appendix 3: Historical Dry Bulk Time Charter Rates

	1 Year Bulkcarrier Timecharter Rates 30,000 dwt \$/Day	Years Bulkcarrier Timecharter Rates 30,000 dwt \$/Day
1989	8,138	7,728
1990	6,871	7,139
1991	7,719	8,107
1992	6,690	7,398
1993	7,889	8,352
1994	8,388	8,712
1995	9,407	9,321
1996	7,324	7,938
1997	6,858	7,740
1998	5,799	7,094
1999	5,566	6,325
2000	7,112	7,572
2001	6,807	7,286
2002	6,747	7,200
2003	9,005	7,948
2004	17,323	11,795
2005	15,918	12,578

Historical Handysize Bulker Scrap Values

Year	Handy size Bulker Scrap Value \$ Million
1990	1.52
1991	1.28
1992	1.2
1993	1.28
1994	1.48
1995	1.32
1996	1.22
1997	1.24
1998	0.88
1999	1.16
2000	1.38
2001	1.1
2002	1.46
2003	2.12
2004	3.04
2005	2.64

Source: Clarksons Financial Services SIN 2005

Appendix 4: PSL's Historical Fleet Size and Number of Vessels Purchased Annually

PSL's Historical Fleet Size

Years	Number of Vessels at Year End
1991	12
1992	14
1993	23
1994	27
1995	35
1996	37
1997	45
1998	41
1999	41
2000	35
2001	31
2002	28
2003	30
2004	52
2005	54
2006	54

Number of Vessels Purchased By PSL Each Year

Year	Number of Vessels Purchased That Year
1991	12
1992	2
1993	9
1994	4
1995	8
1996	3
1997	11
1998	0
1999	0
2000	0
2001	0
2002	0
2003	2
2004	22
2005	2
2006	0

Source: Data obtained from PSL Finance Director Kushroo Wadia

Appendix 5: Email From Finance Director Cash and Balances PSL 1995

-----Original Message-----

From: Khushroo Wadia

Sent: Friday, July 21, 2006 11:24 AM

To: Khalid Hashim

Subject: FW: Cash & cashequivalent as on 31.12.1995

For AH.

-----Original Message-----

From: Kiran Vaidya

Sent: Friday, July 21, 2006 11:23 AM

To: Khushroo Wadia

Subject: Cash & cashequivalent as on 31.12.1995

KW,

Please find the details

Cash atBanks	74.82	THB Million
P.Notes	3,121.54	THB Million
Shares	77.37	THB Million
Total	3,273.73	THB Million

Regards

Appendix 6: The Debt Restructure Summary

DEBT RESTRUCTURING SUMMARY

THE DEBT

Precious Shipping P.C.L. (PSL) and its subsidiaries embarked upon the restructuring of the following Debt in July, 1999:

1. **Secured Loans from 6 banks** aggregating app. USD 75 million with six banks, secured inter alia against the vessels owned by the subsidiaries of PSL.
2. **Secured Loans from HSBC** aggregating app. USD 3.55 million, secured against the apartments owned by PSL's subsidiary.
3. **Unsecured Thai Baht Debentures** of Baht 2,500 million, redeemable at par value on 9th November 2000. Debentures valued at Baht 742.72 million were owned by the subsidiaries of PSL. This left a balance of USD 46 million worth of Debentures to be restructured.
4. **Unsecured Euro Convertible Bonds** of USD 30.776 million outstanding, redeemable at a premium of 17.27% on 30th November 2000.
5. **US Dollar /Thai Baht Currency Swap** of Baht 2,500 million(app. USD 100 million as on the swap date) due for settlement on 9th November, 2000. Based on prevailing exchange rates, a termination of the swap was expected to result in a net liability(loss on settlement) of app. USD 34 million.
6. **Unsecured Corporate Loan** of USD 2.50 million from Deutsche Bank, due on 16th June, 2000.
7. Apart from the above, an underwritten secured loan of upto USD 25 million(actual drawdown made was USD 24.50 million) was made available by Fleet National Bank formerly known as BankBoston(**New Loan**) which was used directly for the cash payout required in the restructure, against the mortgage of ships owned by PSL and its subsidiaries.

THE RESTRUCTURE

PSL and its subsidiaries restructured the above debt on the following lines:

1. Secured Loans

- All principal payments from 15th July, 1999 upto 31st December, 1999 were deferred.
- All interest payments continued in the normal course.
- Rescheduled and reworked the repayment schedule with each lender, whereby all loans will be repaid within Year 2004.

- Repayment installments were reworked to reflect earnings from respective vessels secured with each Lender. Repayments in quarterly installments commenced 31st March 2000.
- Concept of recapture of excess cashflows was introduced subject to annual limits for each lender.
- All loans with each Lender were cross-collateralised.
- Financial Covenants on debt service, liquidity reserves, restrictions on existing and additional debt, were introduced by the Lenders. These were subsequently adopted by other Lenders.

2. Secured Loans from HSBC

- All USD loans were converted to Baht currency to reflect the currency of the collateralised assets.
- A loan of Baht 127.86 million resulted from the conversion.
- Repayment schedule worked out to complete repayment of entire loan within Year 2001.
- Repayments had to be entirely funded out of sale proceeds of certain apartments, not occupied by PSL's staff. Accordingly, sales were undertaken during the year 2000 and Baht 126.54 million was repaid during the year.
- All apartments occupied by staff, as and when released by HSBC after settlement of the entire loan, shall be mortgaged in favour of the Security Agent to the "Commercial Lenders" which arose out of the restructure of other debt hereunder.

3. Unsecured Thai Baht Debentures

- The Buyback program of the Company continued and Debentures of face value Baht 277 million were bought by PSL's subsidiaries at prices not exceeding 40% of the face value.
- Accordingly, debentures of face value of Baht 1,480.28 million outstanding held by companies/financial institutions other than PSL's subsidiaries, were restructured.
- Under the first option available for restructure, the Debenture holder could opt to take cash equal to forty percent of the face value of his holding and the balance in the form of Zero Coupon Redeemable Convertible Debentures(RCD). This option was exercised by holders of Debentures aggregating Baht 533 million.
- The RCD is redeemable at the option(assignable) of the company for a period of thirty months from the issue date, which, is 17th July, 2000. In the first six months from the issue date, the redemption amount payable by the company is 41.67% of the face value of the RCD. Thereafter, in the next quarter such redemption amount increases to 53.34% of the face value and is increased by 5.83% per quarter thereafter. This is a call option granted to the Company and is not the obligation of the company.
- If the RCD is not redeemed by PSL during the above redemption period, the RCD holder has the option for the RCD to be converted into equity shares of the company at 95% of the average closing market price of PSL's equity shares during the month immediately preceding the conversion. In case the RCD holder does not exercise the option to convert within a fixed conversion period, the

company has the obligation to redeem the RCD through a payment of .01% of face value of the RCD.

- Under the second option available for restructure, the Debenture holder could opt to convert the amount of face value of the Debenture into a loan(hereinafter referred to as the Commercial Loan) with a maturity date of 5 years and providing for intermittent repayment installments in the years 2001, 2004, subject to financing available on the vessels released by each respective secured lender on the full repayment of all their respective loans. Accordingly, from the Thai Baht Debentures, Baht 751.08 million has been converted to a Commercial Loan after applying the Compulsory conversion condition as explained hereunder(last item of this section).
- The following major conditions have been imposed on PSL and the ship owning subsidiaries during the life of the Commercial Loan:
 1. Interest payable quarterly @ 6% per annum for a term of five years from the effective date.
 2. One ship(M.V. Chollada Naree) unencumbered at that time and not required to be collateralised for the new loan was mortgaged in favour of Commercial Lenders.
 3. Proceeds of sale of condominiums(not occupied by staff) and/or ships will be applied towards repayment of the Commercial Loan, to the extent available after settlement of all loans with the respective secured lender, who, holds the security over the respective condominium/ship.
 4. All ships released by secured lenders after settlement of all loans with each lender, to be refinanced by PSL, the proceeds of which, to be applied in the repayment of the Commercial Loan. This is expected to be achieved in the years 2001 and 2004.
 5. In case of failure to obtain refinancing against the vessels released, interest rate shall be increased by 1% per annum and the vessels on which the refinancing was not obtained shall be mortgaged to the Commercial Lenders.
 6. Balance of entire loan shall be repaid at the end of the term, which, is 16th July 2005.
 7. PSL is allowed to make investments in existing and currently disclosed non-shipping investments only out of the proceeds of new equity capital raised by PSL or through excess cash flow retained by PSL.
 8. PSL is not allowed to invest in any new business other than the owning and operation of ships.
 9. Out of surplus cash generated by PSL and subsidiaries beyond repayment to secured lenders and certain fixed base target cash laid down for each year, 50% shall be utilised for the repayment of the Commercial Loan and the balance allowed to be retained by PSL and subsidiaries for utilisation as PSL may deem fit.
 10. No additional or new borrowings by PSL and subsidiaries is allowed save as allowed per No 11 hereunder.
 11. PSL is allowed to purchase new ships through special purpose shipowning subsidiaries, only if the funds required to be invested by PSL and/or subsidiaries is funded out of new equity capital and/or surplus cash(excess cashflow) generated and allowed to be retained by PSL and/or subsidiaries.
 12. Additional or new borrowings for purchase of the new ship also allowed as long as the portion to be invested by borrower(margin) is funded out of new equity capital and/or surplus cash generated and allowed to be retained by PSL

and/or subsidiaries. Additional financial covenants to be met (Maximum Loan to Security Value, Debt Equity, and Max Funded Debt to EBITDA) before new borrowings, if the new borrowings of the subsidiaries are guaranteed by PSL. Further, no new borrowings shall be allowed before the redemption of the entire RCD.

13. Sale proceeds of currently disclosed non-ship owning investments must be utilised to fund the redemption of the RCD.

- Interest accrued and payable on the Debentures, upto the effective date of restructure (17th July, 2000), was paid to the Debenture holders on the effective date.
- It was a condition precedent of the new loan and the restructure of the secured debt, that at least USD 60 million of the entire consolidated unsecured debt of PSL would have to be retired through the option of cash plus RCD method. In case of a shortfall in this amount, such shortfall had to be compulsorily allocated to the cash plus RCD offer, divided pro-rata among the unsecured Thai Baht Debentures and the unsecured liability arising out of the termination of the currency swap (No. 5 hereunder). Accordingly, Baht 196.20 million of unsecured Thai Baht Debentures were compulsorily allocated to the first option.

4. Unsecured Euro Convertible Bonds

- Just before restructure, Bonds of face value of US Dollar 30.776 million were outstanding. This gave rise to a legal claim of USD 34.894 million inclusive of the redemption premium of 13.38%.
- Under the restructure terms, the Bondholders were paid cash equal to forty percent of the Legal Claim of their legal claim, and the balance in the form of Zero Coupon Redeemable Convertible Debentures (RCD). Accordingly, Bondholders were paid USD 13.96 million towards the partial cash and the balance was converted to USD 20.93 million worth of RCD.
- The RCD is redeemable at the option (assignable) of the company for a period of thirty months from the issue date. In the first six months from the issue date, the redemption amount payable by the company is 41.67% of the face value of the RCD. Thereafter, in the next quarter such redemption amount increases to 53.34% of the face value and is increased by 5.83% per quarter thereafter.
- If the RCD is not redeemed by PSL during the above redemption period, the RCD shall be mandatorily converted into equity shares of the company at 95% of the average closing market price of PSL's equity shares during the month immediately preceding the conversion.
- Interest accrued and payable on the Bonds upto the effective date of restructure, was paid to the Bondholders on 17th July, 2000.

5. US Dollar/Thai Baht Currency Swap

- The swap was terminated on 14th February 2000 resulting in a settlement amount of USD 31.25 million.
- Settlement amount of USD 31.25 million was converted to unsecured loan carrying interest @ 7.81% p.a. upto the effective date of restructure, viz. 17th July, 2000.

- Swap Holder(now converted to Lender) had to take first option (receive forty percent of the loan amount as cash and the balance in the form of RCD) or the second option (convert the loan into a Commercial Loan) under the restructure options available to unsecured Thai Baht Debenture holders in 3 above, subject to the compulsory allocation of the unsecured debt as explained in No.3 above.
- The entire unsecured loan of USD 31.25 million was converted into a Thai Baht loan and the Swap Holder exercised the second option of conversion into a Commercial Loan, subject to compulsory conversion. Accordingly, Baht 999.20 million was converted into Commercial Loan and Baht 101.32 million was received in cash and the balance of Baht 151.98 million was converted into RCD.

6. Unsecured Corporate Loan

- PSL reached a settlement with Deutsche Bank to retire the entire debt by a payment of USD 1 million on or before 31st December 1999 in full and final settlement.
- Settlement amount paid on 30th December 1999 and all claims now settled.

7. New Loan from BankBoston of an amount upto USD 25 million

- A loan of an amount not exceeding USD 25 million was to be drawn on effective date of restructure. This loan was required to be exclusively utilised for the restructure towards the payment of the upfront cash payment(40% of Legal Claim) required.
- Accordingly, USD 24.50 million was drawn down on 14th July, 2000.
- 10 ships then valued at USD 34.62 million were mortgaged and cross-collateralised in favour of BankBoston. Term of the loan is five years.
- Repayments shall be made vide quarterly installments of USD600,000 (except additional of USD 0.50 million paid on 31st December, 2000) and balance repaid as bullet, before end of Year 5 from the drawdown date.
- Excess cash flow as defined to be recaptured and to be utilised towards repayment in inverse order of maturity, subject to annual limits.
- Adherence to financial covenants during the life of the loan.

Appendix 7: Emails from Managing Director Khalid Hashim To Various Shareholders and Staff Regarding Conversion of Redeemable Convertible Debentures

Email Dated 03 July 2002

Khalid Hashim

From: Khalid Hashim
Sent: Wednesday, July 03, 2002 5:34 PM
To: Arunee Poonsuk, BBL, Bangkok; Thanapol Chumjai, BBL, Bangkok; Viroj Pornchirobhas, BBL, Bangkok
Cc: Kirit C Shah; Munir Hashim; Jaipal Mansukhani; Khushroo Wadia
Subject: RCD
Importance: High

Hi Khun Arunee, Khun Viroj + Khun Thanapol,

First of all, thank you for taking the time to see me at such short notice. I am recapping our discussions so that you can present the same to your credit committee.

- In 1998 PSL had a total debt of about USD 260 million which was partly secured and partly unsecured.
- During 1998, the Russian Debt default jolted the markets and most third world bonds started trading at huge discounts. Thai bonds were treated in the same fashion. Our debt was no different and we were, as a Company, able to buy back some significant portions of our debt at big discounts during the second half of 1998 and the first half of 1999.
- By the middle of 1999 we had run out of funds to buy back our bonds and the bonds themselves became fairly illiquid with very few sellers remaining.
- At this time we commenced our debt restructure. The agreement with the secured lenders was struck within 15 minutes and allowed us a moratorium on principal repayments for a period of 6 months. This was done so as to allow us time to negotiate with our unsecured lenders and reach a similar deal with them.
- All throughout this process we had not defaulted on a single interest coupon or delayed any such payment to the secured or the unsecured lenders.
- We completed the debt restructure in July 2000 and our outstanding bonds were converted into the Redeemable Convertible Debentures with a face value of about USD 36 million.
- Since then we have managed to buyback parts of the RCD and the outstanding face value today is about USD 26 million consisting of about USD 14.5 million of USD denominated bonds and about USD 11.5 million of Thai denominated bonds.
- The conversion of the outstanding RCDs will occur in the first half of 2003. The dilution impact to existing shareholders will depend on the share price prevailing at the time of conversion.
- The RCD holders, after getting the converted shares, have to encash the same by selling them on the market. This is where the problem lies. Currently the stocks of PSL are fairly illiquid and even the slightest selling or buying pressure results in big volatility in the share price. So if the RCD holders were to all try and sell their shares on the market it might result in the share price nose diving to below its lowest level of Baht 5 per share and the RCD holders would end up recovering a small fraction of the value of their bonds via the sale of the converted shares.
- Under the existing scenario, it is a loose-loose situation for all three involved parties. The RCD holders stand to get shares equal to their outstanding debt only to find that they are unable to encash the same at anything close to par value resulting in a huge loss to them. The existing shareholders get hurt via the dilution from the conversion of RCD into shares and further get hurt by the erosion in share values when the converted shares are encashed by the RCD holders. The Company stands to have its net book value per share diluted as well as being faced with a much larger equity base to service in the future. There are no winners in such a situation.
- As per the current cashflows of the Company, we will be left with about USD 67 million of secured and unsecured deb by the end of this year i.e. total debt outstanding pre-conversion of the RCDs.
- As you can see, from having a total outstanding debt of about USD 260 million during 1998 we have reached the enviable position of having only USD 67 million outstanding at the end of 2002.
- We had raised USD 24.5 million from Fleet National Bank on 1st July 2000 as part of our debt restructure agreement which was to be repaid to them in 5 equal annual instalments of 10% each and the balance 50% in the form of a bullet repayment at the end of the loan. In fact by the end of June 2002 i.e. within 2 years of drawdown, we have reduced

loan to USD 12.5 million only!

Under the terms of the restructure 80% of all our excess cash flow is recaptured by our secured creditors, 10% is recaptured by our unsecured creditors and the balance 10% is retained by the Company to do as it pleases.

- The above situation basically means that the Company does not have too much funds to either buyback the outstanding RCDs or to buy second hand ships to rejuvenate the fleet which is shrinking in size from 48 ships in 1998 to the current 29 ships as of the end of the first half of 2002.

- In hind-sight, the problem with our earlier restructure was that the entire focus was on repaying our secured and unsecured lenders but gave ZERO thought on how the RCD holders would get paid out. The theoretical route of repayment via the conversion to shares is a very poor solution in practise ending up hurting the RCD holders, the existing shareholders and the Company itself.

- When the RCDs do convert, the existing shareholders could face a potential dilution of between 87% and 50% depending on the prevailing share price at the time of the conversion i.e. during the first half of 2003.

- The existing shareholders should therefore be very concerned about this impending threat of dilution from the RCDs during the first half of 2003. It would be in their interest that the share price at the time of conversion should reflect the net book value so that there is no economic dilution to the value of their holdings. The net book value in the first half of 2003 would be very close to Baht 85 per share.

- The existing major shareholders are 32% between my brother and myself, 5% with Siam Commercial Bank and about 37% with Globex and Graintrade.

I trust this gives you a fair picture of the situation should we all do nothing further and the RCDs were to convert in the first half of 2003. On the other hand we could come up with a win-win situation which would see everyone walk away smiling. We should seriously look at converting the RCDs into a loan with the following features:

- Three year moratorium from middle 2003
- Four year amortisation from middle 2006
- Small coupon payable from the middle of 2003 till the loan has been fully paid back

The reason for the moratorium is that we can not apply any of our resources/cash flows towards amortising the RCD/loan till such time as we have finished repaying our secured and unsecured lenders. This, as I have explained, should happen by the end of 2005. The RCDs currently have a ZERO coupon so a small coupon from the middle of 2003 onwards should be a clear improvement and that is all that we could possibly afford based on our current restructure terms.

Please feel free to call should you require any clarification. Khushroo is travelling but will be back on the 5th afternoon and will send you a forward cash flow till 2009 covering the repayment of the RCDs.

Regards,
Khalid Hashim

Please visit our Home page: <http://www.preciousshipping.com>

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Email Dated 17 July 2002

Khalid Hashim

From: Khalid Hashim
Sent: Wednesday, July 17, 2002 11:38 AM
Subject: PSL Redeemable Convertible Debentures

Importance: High

To All Known RCD Holders,

Today, the 17th of July 2002, marks the 2nd anniversary of the creation of the RCD instrument upon the successful restructuring of the Secured and Unsecured debt at PSL. As such the date is important from a historic standpoint. It is also significant from a more contemporary point of view as it is only six months away from the date when the RCDs would convert to shares in PSL. I say this because the Company has been unable to raise any funds to either buy back or call back the RCDs so conversion into shares seems the only possible solution under the existing terms of the RCD.

If you recall, when the RCDs were created in July 2000, they had a face value of about USD 36 million and an agreed 'call price' at which the Company could retire the RCDs was a mere USD 15 million. The RCD holders were, therefore, prepared to 'sell' their paper back to the Company at 41.7 cents to the Dollar thereby accepting a 'haircut' of about 58.3%!

Despite this very advantageous 'offer' from the RCD holders to 'sell' their holdings back to the Company via the call mechanism, we were, sadly, unable to exercise this right. The reason for that was quite simple. Under the terms of the agreed restructure, all our assets i.e. our ships were pledged to the Secured and Unsecured lenders of the Company. More over, all future excess cash flows were to be 90% recaptured by the lenders leaving very little (10% of the excess cash flow) 'free' cash available with the Company to either buy back or call back the RCDs. Hence raising USD 15 million to buy back or call back the RCDs became well nigh impossible.

In hind sight we can all look back and say that NOT enough thought was given to what would happen to the value of the RCDs if and when they were converted into shares. All of us thought that the Company would easily be able to raise the required funds to either call back or buy back the RCDs. No one thought that this would turn out to be impossible considering that the Company did not have any assets to pledge to raise such funds.

Now that the date for conversion of the RCDs into shares is fast approaching, we have been giving it some considerable thought. And what we can foresee is not very pretty.

- The conversion of the outstanding RCDs will occur in the first half of 2003. The dilution impact to existing shareholders will depend on the share price prevailing at the time of conversion.

- The RCD holders, after getting the converted shares, have to encash the same by selling them on the market. This is where the problem lies. The RCD holders get a lot of shares in a Company where the stock turnover is so illiquid that prices move up or down quite sharply whenever there is a buyer or a seller. Take for example the trades on the 3rd and 4th July 2002 totalling something less than 215,000 (0.43%) shares and the price dropped by close to 14% as there was selling pressure. Now imagine even if just 1% of the converted RCD shares were to be sold in such a market. Prices would drop below their all time low of Baht 5 per share and the RCD holders would encash their shares at a discount to nominal value of anywhere between 50 and 85%, if they are lucky.

- Under the existing scenario, it is a loose-loose situation for all three involved parties. The RCD holders stand to get shares equal to their outstanding debt only to find that they are unable to encash the same at anything close to par value resulting in a huge loss to them. The existing shareholders get hurt via the dilution from the conversion of RCD into shares and further get hurt by the erosion in share values when the converted shares are encashed by the RCD holders. The Company stands to have its net book value per share diluted as well as being faced with a much larger equity base to service in the future. There are no winners in such a situation.

- The dilution to the existing shareholders could be such that management, who are major shareholders themselves, could even decide to leave the Company triggering an event of default making the converted RCD holders the ultimate losers as they would be treated like ordinary shareholders and would stand last in line for any pennies that might come their way in a forced and acrimonious liquidation of the Company.

However there is a win-win situation. If we were to convert the RCDs from an Equity linked instrument into an amortising debt instrument that would ensure the RCD holders are repaid in full.

I realise that the above scenario may have escaped our attention during the formulation of the restructure terms during mid 1999 and mid 2000. However, the facts need to be faced today before reality, in the form of a crashing share price

esulting from the sale of the converted RCDs, makes life impossible in the very near future.

Should any of you have any other constructive ideas and or suggestions, please do not hesitate to get in touch with the undersigned via e-mail at: kh@preciousshipping.com or on phone via my direct line +662 - 234 2920. I look forward to hearing from you at your earliest.

Regards,
Khalid Hashim

Please visit our Home page: <http://www.preciousshipping.com>

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Appendix 8: Email From Managing Director Khalid Hashim To Various Shareholders and Staff Regarding USD 250 Credit Line From DnB Nor Nor.

From: Khalid Hashim <kh@preciousshipping.com>
Subject: PSL News Update - USD 250 million Credit Line
Sent: Thursday, August 25, 2005 11:34 AM

As you all may have already seen via the SET information system that PSL has entered into an agreement with International Shipping Banks to borrow up to USD 250 million, and as this may seem contrary to our assertions that we would be debt free by the end of 2005 or early 2006, I thought I would write and clarify the situation.

- PSL is continuing with its policy to get debt free of its loan from Krung Thai Bank (KTB) well before the final maturity date of 2011. Just to give you an idea of the speed of our prepayment of the KTB loan, I will highlight for you the time line of the KTB debt position. During the middle of the month of September 2004, therefore you will not be able to see this figure from any of the published balance sheet reports for PSL, we had reached a peak drawdown from KTB of about USD 265 million. By the end of 2004 it had dropped to about USD 193 million. By the end of March 2005 it had dropped to about USD 156 million and by end of June 2005 it had dropped to about USD 126 million. We are therefore reasonably confident of achieving our goal of becoming debt free of the KTB loan by the end of 2005 or early 2006.
- The new Credit Facility from 5 International Shipping Banks, spearheaded by DnB Nor NOR Bank, is for a sum of up to USD 250 million that can be drawn down by PSL at any time between now and the end of 2006. This facility is to be used for buying of young ships by PSL in accordance with our Rejuvenation Plan aimed at bringing the average age of our fleet close to 10 to 12 years and assisting us in further controlling our daily operating costs.
- The new facility will cost us a margin of between 100 and 140 basis points over LIBOR. The exact interest rate will depend on certain financial ratios, and based on our existing financial strength, we think that the cost to PSL will be at the lower end of this range. As a comparison, the existing loan from KTB is with a 237.5 basis points margin over LIBOR.
- This new facility will have a fairly easy repayment schedule and will be spread over 7+ years beginning from the end of March 2007. It will also have a 'free' prepayment clause that would allow us to accelerate repayment of this debt from our operational cash flows without any penalties.

This new credit facility will provide the platform for our organic growth as and when suitable opportunities present themselves in the form of reasonably priced ships from the market.

Should you have any questions, please do not hesitate to give me a call.

Regards,

Khalid Hashim

Tel:+66 2 234 2920 – direct line

Appendix 9: Marine Money & SET Awards Won By Precious Shipping Limited

SET Award For Best Performance - 2006



SET Award For Best Corporate Governance - 2006



Marine Money Award For Best Shipping Company In The World 2005



Marine Money Award For Best Shipping Company In The World 2004



Appendix 10: PSL Fleet Size and Cost of Additions

Vessel Name	Date of Purchase	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Fujisan Maru	Jan-91	\$4,250,000															
Kinzan Maru	Jan-91	\$4,750,000															
Kongo Maru	Jan-91	\$3,000,000															
Hakkin Maru	Jan-91	\$3,000,000															
Diazu Maru	Jan-91	\$3,250,000															
Soya	Jan-91	\$3,250,000															
Kiso Maru	Apr-91	\$5,010,359															
Kanok Naree (1)	Jul-91	\$4,843,707															
Noppom Naree	Sep-91	\$4,802,389															
Patchara Naree (1)	Oct-91	\$4,592,317															
Rattana Naree (1)	Oct-91	\$4,073,160															
Suthathip Naree (1)	Nov-91	\$4,057,257															
Nira Naree	Jan-92		\$4,705,669														
Chalothom Naree (1)	Jan-92		\$3,819,746														
Sirorat Naree (1)	Jan-93			\$4,154,289													
Manisamut Naree (1)	Jan-93			\$8,142,336													
Opal Naree (1)	Jan-93			\$3,670,163													
Darin Naree (1)	Feb-93			\$5,642,646													
Kritika Naree (1)	May-93			\$3,521,000													
Sukarawan Naree (1)	Aug-93			\$4,255,749													
Ploypailin Naree (1)	Oct-93			\$3,197,000													
Morakot Naree	Oct-93			\$6,035,893													
Gomain Naree (1)	Nov-93			\$3,759,659													
Chada Naree	Mar-94				\$5,941,966												
Mukda Naree	Jun-94				\$7,567,664												
Nalinee Naree	Jul-94				\$7,496,327												
Wana Naree	Dec-94				\$8,152,716												
Anodad Naree	Feb-95					\$6,616,500											
Jamjuree Naree	Mar-95					\$7,899,412											
Monthira Naree	May-95					\$8,395,073											
Rojarek Naree	Jun-95					\$7,408,969											
Mallika Naree	Sep-95					\$9,559,583											
Vanda Naree	Sep-95					\$10,488,525											
Ramita Naree	Oct-95					\$9,152,712											
Sumana Naree	Nov-95					\$10,040,189											
Pawitra Naree	Jun-96						\$9,443,931										
Natcha Naree	Jul-96						\$8,743,776										
Apisara Naree	Nov-96						\$15,262,775										
Sirorat Naree (2)	Jan-97							\$8,728,461									
Bussara Naree	Mar-97							\$15,797,341									
Suchada Naree	May-97							\$15,561,697									
Parinda Naree	May-97							\$16,117,297									
Boontrika Naree	Jun-97							\$13,299,325									
Waralee Naree	Jun-97							\$6,921,719									
Tharinee Naree	Jul-97							\$15,385,677									
Salinthip Naree	Jul-97							\$6,819,501									
Chollada Naree	Aug-97							\$16,002,500									
Dusita Naree	Sep-97							\$15,887,545									
Ermwika Naree	Dec-97							\$16,412,043									
Patchara Naree (2)	Sep-03												\$4,500,000				
Ploypailin Naree (2)	Nov-03												\$11,050,000				
Neera Naree	Jan-04														\$7,000,000		
Fonthida Naree	Mar-04														\$12,500,000		
Rattana Naree (2)	Mar-04														\$18,950,000		
Suthathip Naree (2)	Apr-04														\$6,000,000		
Kanok Naree (2)	Apr-04														\$8,600,000		
Nipha Naree	Apr-04														\$8,350,000		
Sukarawan Naree (2)	Apr-04														\$7,350,000		
Thamisa Naree	Apr-04														\$6,500,000		
Gomain Naree (2)	Apr-04														\$5,900,000		
Worada Naree	Apr-04														\$6,250,000		
Darin Naree (2)	Apr-04														\$7,200,000		
Opal Naree (2)	Apr-04														\$5,550,000		
Nayana Naree	Apr-04														\$7,300,000		
Kritika Naree (2)	Apr-04														\$5,400,000		
Urana Naree	Apr-04														\$6,200,000		
Manisamut Naree (2)	May-04														\$5,200,000		
Manora Naree	May-04														\$6,200,000		
Fonarun Naree	May-04														\$6,000,000		
Chalothom Naree (2)	Jun-04														\$17,200,000		
Saranya Naree	Jul-04														\$15,800,000		
Suchitra Naree	Aug-04														\$13,900,000		
Vichitra Naree	Sep-04														\$15,900,000		
Uravee Naree	Jul-05															\$24,900,000	
Mathavee Naree	Jul-05															\$24,600,000	
Total		\$17,525,122	\$9,525,416	\$42,578,734	\$29,158,673	\$69,560,963	\$33,470,482	\$146,933,106	\$0	\$0	\$0	\$0	\$0	\$15,550,000	\$199,250,000	\$49,500,000	\$0

Appendix 11: Complete 10-Year Financial Ratio Analysis For PSL

PSL Net Book Value in USD Terms

Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
NBV per share (USD)	0.18	0.18	0.14	0.14	0.13	0.18	0.16	0.15	0.18	0.33	0.55
NBV per share (post-adjusted vessel values) (USD)									0.28	0.86	1.05
Market price per share (USD)	0.57	0.16	0.07	0.02	0.03	0.02	0.03	0.05	0.88	1.01	0.77

PSL Financial Ratio Analysis

Ratio	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Hull to debt ratio (Times) (Vessels' NBV/Funded Debt)	0.70	0.73	1.06	1.18	2.75	1.48	1.56	1.64	1.75	1.69	4.30
2. Current ratio (Times)	3.57	2.18	0.31	0.24	0.11	0.56	0.82	0.79	0.76	1.07	2.17
3. Interest cover (Times)	4.61	3.27	2.42	1.85	1.82	2.42	4.74	6.03	7.68	13.32	20.74
4. Gearing (Times) (Funded Debt/Equity)	2.45	2.36	3.50	2.83	1.20	1.46	1.31	1.20	0.90	1.13	0.28
5. Profit margin (%) (NP/TR)	20.69%	10.89%	-6.75%	3.82%	-6.48%	1.11%	7.15%	-0.62%	27.12%	51.32%	55.66%
6. Return on total assets (ROA) (%) at the end of the year	9.02%	4.03%	-2.19%	1.18%	-2.19%	0.49%	3.00%	-0.25%	13.28%	38.54%	40.72%
7. Return on equity (ROE) (%) at the end of the year	25.45%	14.81%	-9.17%	5.29%	-9.03%	1.58%	7.55%	-0.59%	28.70%	82.55%	67.34%