



FERRIER HODGSON

FINANCIAL RESTRUCTURING & CORPORATE RECOVERY

Precious Shipping Public Company Limited

**USD Restatement Report for Three Months
Ended 31st March 2002**

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NOTICE TO ALL RECIPIENTS

SCOPE OF WORK

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

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

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



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1. EXECUTIVE SUMMARY

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

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

FH has undertaken to report on its review of the restated USD consolidated financial statements for the three-month period ended 31st March 2002. In undertaking the above, FH were accorded the full assistance and co-operation of the PSL staff and management.

The restated USD Balance Sheet as at 31st March 2002 indicates that the total assets and liabilities of PSL were USD 196 million and USD 115 million, respectively. The equity of PSL as at 31st March 2002 was therefore USD 81 million.

In relation to the income statement, PSL’s total revenues and expenses, excluding interest and finance cost, for the three months ended 31st March 2002 were USD 20.2 million and USD 20.9 million, respectively. Net loss, after including such items as interest and finance cost totalling USD 1 million, equals USD 1.9 million. The retained earnings at the end of the period stood at USD 6.6 million.

2.

Table 1: Consolidated Balance Sheet as at 31 March 2002 – Assets

ASSETS	31/12/01		31/3/02	
	THB	USD	THB	USD
Current assets				
Cash and cash equivalents	261,590,521	5,921,070	242,068,932	5,573,464
Current investments:				
Time deposits	14,964,636	338,723	14,777,299	340,237
Other investments	149,358,890	4,109,750	121,579,260	3,361,988
Accounts receivable – trade - net	120,818,703	2,734,717	127,064,364	2,925,566
Receivable from and advances to related companies	9,347,389	211,577	16,842,754	387,792
Bunker oil	61,628,749	1,394,959	48,105,159	1,107,587
Other current assets	184,617,762	4,178,801	137,911,152	3,175,306
<i>Total current assets</i>	<i>802,326,650</i>	<i>18,889,597</i>	<i>708,348,920</i>	<i>16,871,940</i>
Non-current assets				
Fixed assets at cost:				
Vessels & Vessels Equipment	7,872,000,897	302,329,837	7,730,650,391	296,584,051
Office equipment	21,219,152	567,209	19,293,348	497,388
Barge & equipment	-	-	-	-
Leasehold improvement	2,773,880	62,786	2,773,880	63,867
Vehicles	12,991,321	305,129	12,991,321	309,928
Buildings & improvement	195,778,071	7,677,571	195,778,071	7,677,571
Furniture & fixtures	21,126,880	478,204	21,126,880	486,431
Plant equipment	114,582,149	4,493,418	114,582,149	4,493,418
<i>Total</i>	<i>8,240,472,350</i>	<i>315,914,154</i>	<i>8,097,196,040</i>	<i>310,112,654</i>
Less: Accumulated depreciation	(3,474,875,308)	(136,011,934)	(3,481,035,366)	(135,985,461)
<i>Total fixed assets – net</i>	<i>4,765,597,042</i>	<i>179,902,220</i>	<i>4,616,160,674</i>	<i>174,127,193</i>
Intangible assets				
Deferred charges – net	221,982,433	5,210,792	197,539,157	4,666,211
Goodwill – net	9,493,080	372,278	9,323,560	365,630
Other non-current assets	3,568,943	80,783	3,191,468	73,481
<i>Total non-current assets</i>	<i>5,000,641,498</i>	<i>185,566,073</i>	<i>4,826,214,859</i>	<i>179,232,515</i>
<i>Total Assets</i>	<i>5,802,968,148</i>	<i>204,455,670</i>	<i>5,534,563,779</i>	<i>196,104,455</i>



Table 2: Consolidated Balance Sheet as at 31st March 2002 – Liabilities & Shareholders' Equity

LIABILITIES & SHAREHOLDERS' EQUITY	31/12/01		31/3/02	
	THB	USD	THB	USD
Liabilities				
Current liabilities				
Trade accounts payable	119,260,727	2,688,493	104,380,531	2,393,072
Current portion of long-term loans	590,107,337	13,302,780	497,573,497	11,407,579
Advance received from charterers	75,000,660	1,690,739	90,911,357	2,084,272
Interest payable	6,649,366	149,897	2,236,283	51,270
Other current liabilities	231,430,686	5,217,138	197,578,549	4,529,769
<i>Total current liabilities</i>	<i>1,022,448,776</i>	<i>23,049,047</i>	<i>892,680,217</i>	<i>20,465,962</i>
Non-current liabilities				
Redeemable convertible debentures	799,365,574	18,020,086	856,841,975	19,644,319
Long-term liabilities – net of current portion	3,507,115,459	79,060,848	3,256,403,828	74,657,681
<i>Total non-current liabilities</i>	<i>4,306,481,033</i>	<i>97,080,934</i>	<i>4,113,245,803</i>	<i>94,302,000</i>
<i>Total liabilities</i>	<i>5,328,929,809</i>	<i>120,129,981</i>	<i>5,005,926,020</i>	<i>114,767,962</i>
Shareholders' Equity				
Share capital – issued and paid-up	520,000,000	20,392,157	520,000,000	20,392,157
Translation adjustment	143,076,118	4,698,812	146,404,102	4,944,950
Premium on ordinary shares	926,054,829	36,315,876	926,054,829	36,315,876
Unrealised gain on redeemable convertible debenture	329,203,639	7,421,232	260,875,185	5,980,934
Statutory reserve – the Company	60,500,000	2,372,549	60,500,000	2,372,549
Statutory reserve – subsidiaries	77,465,999	2,856,051	77,465,999	2,856,051
General reserve in subsidiaries	24,181,905	800,153	24,181,905	800,153
Retained earnings	(1,645,951,395)	8,578,248	(1,531,280,766)	6,655,053
<i>Total equity attributable to shareholders</i>	<i>434,531,095</i>	<i>83,435,078</i>	<i>484,201,254</i>	<i>80,317,723</i>
Minority interest – equity attributable to minority shareholders of subsidiaries	39,507,244	890,611	44,436,505	1,018,770
<i>Total Shareholders' Equity</i>	<i>474,038,339</i>	<i>84,325,689</i>	<i>528,637,759</i>	<i>81,336,493</i>
<i>Total Liabilities & Shareholders' Equity</i>	<i>5,802,968,148</i>	<i>204,455,670</i>	<i>5,534,563,779</i>	<i>196,104,455</i>



Table 3: Consolidated Income Statement for Three Months Ended 31st March 2002

Consolidated Income Statement	12 Months to 31/12/01		3 Months to 31/3/02	
	THB	USD	THB	USD
Revenues				
Vessel operating income	4,010,630,227	90,437,422	881,761,200	20,099,412
Service income	27,002,998	609,159	2,928,420	66,752
Gain on disposal of fixed assets	-	-	10,984,763	-
Exchange gains	-	1,253,805	43,268,471	-
Share of profit from investments under equity method	5,729,663	127,612	-	-
Interest income	9,166,474	206,901	1,201,007	27,376
Other income	3,482,007	78,719	856,577	19,525
<i>Total revenues</i>	<i>4,056,011,369</i>	<i>92,713,618</i>	<i>941,000,438</i>	<i>20,213,065</i>
Expenses				
Vessel operating costs	2,362,638,643	53,748,427	553,066,477	12,750,908
Cost of services	39,586,505	897,894	3,484,390	79,425
Administrative expenses	178,915,540	4,028,640	54,642,297	1,245,550
Allowance for doubtful accounts	108,965,144	2,482,680	8,694,185	248,270
Provision for loss on other investments	-	-	27,779,630	747,763
Exchange losses	75,462,528	-	-	936,655
Depreciation	544,048,209	21,017,947	124,952,887	4,783,723
Loss on disposal of fixed assets	14,695,732	2,558,857	-	119,668
<i>Total expenses</i>	<i>3,324,312,301</i>	<i>84,734,445</i>	<i>772,619,866</i>	<i>20,911,962</i>
<i>Income before interest and finance cost and income tax</i>	<i>731,699,068</i>	<i>7,979,173</i>	<i>168,380,572</i>	<i>(698,897)</i>
Less: Interest and finance costs	(310,267,937)	(7,012,171)	(52,493,410)	(1,196,567)
<i>Income before income tax</i>	<i>421,431,131</i>	<i>967,002</i>	<i>115,887,162</i>	<i>(1,895,464)</i>
Less: Corporate income tax	(2,961,112)	(66,712)	(225,342)	(5,137)
<i>Income before minority interest after tax</i>	<i>418,470,019</i>	<i>900,290</i>	<i>115,661,820</i>	<i>(1,900,601)</i>
Less: Net loss / (earning) of minority interest	21,779,431	489,563	(991,191)	(22,594)
<i>Net income before extraordinary items</i>	<i>440,249,450</i>	<i>1,389,853</i>	<i>114,670,629</i>	<i>(1,923,195)</i>
Gain on redemption of RCDs	233,068,407	5,235,109	-	-
<i>Net income</i>	<i>673,317,857</i>	<i>6,624,962</i>	<i>114,670,629</i>	<i>(1,923,195)</i>
Retained earnings, Beginning of the year	(2,319,269,252)	1,953,286	(1,645,951,395)	8,578,248
<i>Retained earnings, Ending of the year</i>	<i>(1,645,951,395)</i>	<i>8,578,248</i>	<i>(1,531,280,766)</i>	<i>6,655,053</i>
Earnings per share	12.95	0.13	2.21	(0.04)

APPENDICES

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

APPENDIX 2: POLICY OF RESTATEMENT FROM THB TO USD CURRENCY

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

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

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

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

- Balance Sheet

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

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

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

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

- Depreciation of assets which were originally acquired in USD is restated using the historical exchange rate at the date of acquisition. However, where the assets were originally purchased in THB, the depreciation is converted by PSL at the exchange rate as at the balance sheet date. Again, the policy on USD and THB asset depreciation is not consistent and therefore FH has applied the historical exchange rates to major THB fixed assets, i.e. buildings, plant, and equipment.
- Bunker oil, accounts receivable and payable, and advance received from charterers were originally denominated in USD and are translated into THB at the exchange rate at the balance sheet date. The restatement into USD therefore is based on the 31st March 2002 exchange rate to reverse the translation.
- The nature of other current assets and liabilities is mostly very current and therefore the exchange rate as at the balance sheet date is applied.
- Other assets, excluding unamortised drydock and the special survey, are denominated in USD and are translated into THB at the exchange rate as at the balance sheet date. The restatement into USD therefore has been done at the 31st March 2002 exchange rate to reverse the translation.
- Goodwill is the excess of the investment in Great Circle Shipping Agency Limited, one of PSL's subsidiaries, over its book value at the amount denominated in THB. Similar to fixed assets originally made in THB the restatement into USD is applied at the historical rate.
- Loans from banks, bonds and interest payable are mostly denominated in USD and are translated into THB at the exchange rate as at the balance sheet date. The restatement into USD therefore has been done at the 31st March 2002 exchange rate to reverse the translation. THB loans and debentures are also converted at the exchange rate as at the balance sheet date.

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

- **Income Statement**

Most items in the Company's audited / reviewed income statement were originally denominated in USD and translated into THB at the prevailing exchange rate¹ at that time. In order to perfectly restate these transactions it would be necessary to match each transaction with its historical exchange rate. This is outside the scope of our review. These items have been translated using the weighted average exchange rates for three months ended 31st March 2002, which should approximate (where income, expenses and exchange rates are relatively stable) the historical exchange rates of each transaction. However should the THB / USD exchange rate change significantly in the future, the policy may be amended to better illustrate PSL's performance in USD terms. This policy, again, is not applied to some items as we consider an alternative policy, as described below, would provide more accurate restatement in USD.

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

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

assets and liabilities which in USD terms have changed in value since 31 December 2001. Due to the complexity in obtaining detailed figures for each item it is assumed that these items are fixed for the whole financial statement period, i.e. since January 2002.

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

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