



FERRIER HODGSON

FINANCIAL RESTRUCTURING & CORPORATE RECOVERY

Precious Shipping Public Company Limited

USD Restatement Report for Nine Months Ended 30th September 2001

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NOTICE TO ALL RECIPIENTS

SCOPE OF WORK

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

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

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

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1. EXECUTIVE SUMMARY

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

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

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

The restated USD Balance Sheet as at 30th September 2001 indicates that the total assets and liabilities of PSL were USD 214 million and USD 127 million, respectively. The equity of PSL as at 30th September 2001 was therefore USD 87 million.

In relation to the income statement, PSL’s total revenues and expenses for the nine months ended 30th September 2001 were USD 73.5 million and USD 71.7 million, respectively. Net income, after including the extraordinary item incurred from the gain on redemption of Redeemable Convertible Debentures totalling USD 4.9 million, equals USD 7.2 million. The retained earnings at the end of the period stood at USD 9.2 million.



2. FINANCIAL STATEMENTS

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

ASSETS	30/6/01		30/9/01	
	THB	USD	THB	USD
Current assets				
Cash on hand & at banks	376,353,798	8,336,334	285,223,084	6,434,436
Accounts receivable – trade - net	119,651,828	2,650,319	187,066,256	4,220,085
Receivable from a related company	-	-	9,379,488	211,595
Bunker oil	63,313,793	1,402,417	66,312,356	1,495,961
Other current assets	225,072,594	4,985,416	229,137,364	5,169,180
<i>Total current assets</i>	<i>784,392,013</i>	<i>17,374,486</i>	<i>777,118,548</i>	<i>17,531,257</i>
Investment in associated companies	181,505,734	4,219,771	149,358,890	4,119,750
Fixed assets at cost				
Vessels & Vessels Equipment	8,193,955,961	315,126,679	7,872,000,897	302,329,837
Office equipment	25,672,239	732,773	21,375,835	570,067
Barge & equipment	51,741,078	2,029,062	51,741,078	2,029,062
Leasehold improvement	2,773,880	61,442	2,773,880	62,577
Vehicles	14,196,115	338,699	12,991,321	304,198
Buildings & improvement	195,778,071	7,677,571	195,778,071	7,677,571
Furniture & fixtures	21,130,363	468,043	21,159,363	477,341
Plant equipment	122,920,037	4,820,394	116,002,645	4,549,123
<i>Total</i>	<i>8,628,167,744</i>	<i>331,254,663</i>	<i>8,293,823,090</i>	<i>317,999,776</i>
Less: Accumulated depreciation	(3,488,046,767)	(136,726,801)	(3,378,794,597)	(132,327,642)
<i>Total Fixed assets - net</i>	<i>5,140,120,977</i>	<i>194,527,862</i>	<i>4,915,028,493</i>	<i>185,672,134</i>
Other assets				
Unamortised drydock & special survey	218,178,007	5,266,365	246,219,745	5,892,574
Other assets – net	11,881,088	263,169	9,327,301	210,418
<i>Total other assets</i>	<i>230,059,095</i>	<i>5,529,534</i>	<i>255,547,046</i>	<i>6,102,992</i>
Goodwill	9,832,120	385,573	9,662,600	378,925
<i>Total assets</i>	<i>6,345,909,939</i>	<i>222,037,226</i>	<i>6,106,715,577</i>	<i>213,805,058</i>



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

LIABILITIES & EQUITY	30/6/01		30/9/01	
	THB	USD	THB	USD
Liabilities				
Current liabilities				
Payable to a related company	5,782,039	127,465	-	-
Account payables	115,817,843	2,553,208	133,619,437	3,000,614
Current portion of long-term loan	691,731,626	15,249,244	617,798,448	13,873,540
Freight / hire received in advance	134,429,173	2,963,495	85,083,965	1,910,681
Interest payable	7,424,315	163,669	6,017,396	135,129
Other current liabilities	219,734,959	4,844,064	225,514,869	5,064,256
<i>Total current liabilities</i>	<i>1,174,919,955</i>	<i>25,901,145</i>	<i>1,068,034,115</i>	<i>23,984,220</i>
Redeemable convertible debentures	795,535,559	17,537,604	750,795,822	16,860,184
Long-term liabilities – net	4,065,209,404	89,617,660	3,840,131,693	86,235,601
<i>Total liabilities</i>	<i>6,035,664,918</i>	<i>133,056,409</i>	<i>5,658,961,630</i>	<i>127,080,005</i>
Minority interest	51,320,454	1,131,361	39,256,439	881,559
Shareholders' Equity				
Share capital – issued and paid-up	520,000,000	20,392,157	520,000,000	20,392,157
Cumulative translation adjustment	144,796,706	4,691,572	144,159,169	4,832,157
Share premium	926,054,829	36,315,876	926,054,829	36,315,876
Unrealised gain on redeemable convertible debenture	548,955,837	12,101,747	404,274,674	9,078,561
Reserve fund	60,500,000	2,372,549	60,500,000	2,372,549
Legal reserve – subsidiary companies	77,465,999	2,856,051	77,465,999	2,856,051
General reserve	24,181,905	800,153	24,181,905	800,153
Retained Earnings	(2,043,030,709)	8,319,351	(1,748,139,068)	9,195,990
<i>Total Shareholders' Equity</i>	<i>310,245,021</i>	<i>88,980,817</i>	<i>447,753,947</i>	<i>86,725,053</i>
<i>Total Liabilities & Shareholders' Equity</i>	<i>6,345,909,939</i>	<i>222,037,226</i>	<i>6,106,715,577</i>	<i>213,805,058</i>



Table 3: Consolidated Income Statement for Nine Months Ended 30th September 2001

Consolidated Income Statement	6 Months to 30/6/01		Third Quarter		9 Months to 30/9/01	
	THB	USD	THB	USD	THB	USD
Revenues						
Vessel operating income	2,183,187,644	49,692,098	970,723,092	21,467,294	3,153,910,736	71,159,392
Service income	15,746,862	358,945	7,934,947	175,480	23,681,809	534,425
Gain on exchange rate	-	2,500,870	-	(1,031,808)	-	1,469,062
Equity in net income of associated company	5,729,663	127,612	-	-	5,729,663	127,612
Interest income	4,696,426	107,542	3,166,135	70,018	7,862,561	177,560
Other income	1,942,805	44,487	1,042,775	23,061	2,985,580	67,548
<i>Total revenues</i>	<i>2,211,303,400</i>	<i>52,831,554</i>	<i>982,866,949</i>	<i>20,704,045</i>	<i>3,194,170,349</i>	<i>73,535,599</i>
Costs and Expenses						
Vessel operating costs	1,273,161,991	29,206,757	545,711,824	12,241,122	1,818,873,815	41,447,879
Cost for service	31,862,005	726,095	5,211,496	115,251	37,073,501	841,346
Administrative expenses	96,671,368	2,195,348	44,859,085	992,047	141,530,453	3,187,395
Doubtful accounts	72,608,943	1,676,511	30,776,331	680,610	103,385,274	2,357,121
Unrealised loss/(gain) on short-term investment	-	(4)	-	4	-	-
Exchange loss	141,143,209	-	(55,055,457)	-	86,087,752	-
Depreciation	281,887,112	10,895,348	133,177,534	5,154,251	415,064,646	16,049,599
Loss / (gain) on sale of fixed assets	(13,523,166)	587,174	22,136,382	1,502,587	8,613,216	2,089,761
Interest and finance cost	177,502,806	4,053,810	75,218,172	1,663,431	252,720,978	5,717,241
<i>Total costs and expenses</i>	<i>2,061,314,268</i>	<i>49,341,039</i>	<i>802,035,367</i>	<i>22,349,303</i>	<i>2,863,349,635</i>	<i>71,690,342</i>
<i>Income before income tax and minority interest</i>	<i>149,989,132</i>	<i>3,490,515</i>	<i>180,831,582</i>	<i>(1,645,258)</i>	<i>330,820,714</i>	<i>1,845,257</i>
Less: Income tax	(408,900)	(9,430)	(381,073)	(8,427)	(789,973)	(17,857)
<i>Income before minority interest after tax</i>	<i>149,580,232</i>	<i>3,481,085</i>	<i>180,450,509</i>	<i>(1,653,685)</i>	<i>330,030,741</i>	<i>1,827,400</i>
Less: Minority interest in subsidiary companies	9,966,221	228,414	12,064,015	266,793	22,030,236	495,207
<i>Net income before extraordinary items</i>	<i>159,546,453</i>	<i>3,709,499</i>	<i>192,514,524</i>	<i>(1,386,892)</i>	<i>352,060,977</i>	<i>2,322,607</i>



Consolidated Income Statement	6 Months to 30/6/01		Third Quarter		9 Months to 30/9/01	
	THB	USD	THB	USD	THB	USD
Gain on redemption of RCDs	116,692,090	2,656,053	102,377,117	2,264,044	219,069,207	4,920,097
<i>Net income</i>	<i>276,238,543</i>	<i>6,365,552</i>	<i>294,891,641</i>	<i>877,152</i>	<i>571,130,184</i>	<i>7,242,704</i>
Depreciation of revaluation surplus of fixed asset	-	513	-	(513)	-	-
Retained earnings, Beginning of the year	(2,319,269,252)	1,953,286	-	-	(2,319,269,252)	1,953,286
<i>Retained earnings, Ending of the year</i>	<i>(2,043,030,709)</i>	<i>8,319,351</i>	<i>294,891,641</i>	<i>876,639</i>	<i>(1,748,139,068)</i>	<i>9,195,990</i>
Earnings per share	5.31	0.12	5.67	0.02	10.98	0.14

APPENDICES

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

APPENDIX 2: POLICY OF RESTATEMENT FROM THB TO USD CURRENCY

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

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

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

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

- Balance Sheet

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

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

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

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

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

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

- **Income Statement**

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

- Depreciation of assets originally acquired in USD is similar to the depreciation item in the balance sheet. This item is not directly translated using the weighted monthly average rate but the historical acquisition exchange rates. As mentioned earlier in the balance sheet section, the policy on USD and THB asset depreciation is not consistent and therefore the historical exchange rates are applied to major THB fixed assets, i.e. buildings, plant, and equipment.
- Gains / losses on sales of fixed assets are converted at the actual THB / USD exchange rate as at the date of asset disposal for both USD and THB sales.
- The exchange gain in the USD Income Statement arises from THB denominated monetary assets and liabilities, minor fixed assets and current assets and liabilities which in USD terms have changed in value since 30 June

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.



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 July 2001.

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

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