



FERRIER HODGSON

FINANCIAL RESTRUCTURING & CORPORATE RECOVERY

Precious Shipping Public Company Limited

USD Restatement Report for Nine Months Ended 30th September 2003

FERRIER HODGSON LIMITED

LEVEL 21/1 SATHORN CITY TOWER 175 SOUTH SATHORN ROAD

THUNGMAHAMEK SATHORN BANGKOK 10120 THAILAND

TELEPHONE 02 679 5400 FACSIMILE 02 679 5401



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 2003. 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 2003 indicates that the total assets and liabilities of PSL were USD 173 million and USD 82 million, respectively. The equity of PSL as at 30th September 2003 was therefore USD 91 million.

In relation to the income statement, PSL’s total revenues and expenses, excluding interest and finance cost, for the nine months ended 30th September 2003 were USD 64 million and USD 48 million, respectively. Net income, after including such items as interest and finance cost and gain on redemption of debentures totalling USD 5 million and 3.5 million, respectively, equals USD 13.8 million. The retained earnings at the end of the period stood at USD 44.5 million.

2. FINANCIAL STATEMENTS

Table 1: Consolidated Balance Sheet as at 30th September 2003 – Assets

ASSETS	30/6/03		30/9/03	
	THB	USD	THB	USD
Current assets				
Cash and cash equivalents	457,026,190	10,899,014	416,690,413	10,443,997
Accounts receivable – trade - net	68,736,921	1,639,216	84,623,214	2,121,010
Receivable from and advances to related companies	2,299,440	54,836	2,299,440	57,634
Bunker oil	13,797,834	329,046	32,565,930	816,238
Other current assets	88,517,092	2,110,927	89,584,030	2,245,349
<i>Total current assets</i>	<i>630,377,477</i>	<i>15,033,039</i>	<i>625,763,027</i>	<i>15,684,228</i>
Non-current assets				
Long-term investments	87,700,531	2,037,650	87,700,531	2,037,650
Fixed assets at cost:				
Vessels & Vessels Equipment	7,566,467,585	290,040,858	7,753,749,484	294,540,858
Office equipment	16,431,463	396,372	16,470,463	416,980
Leasehold improvement	2,773,880	66,151	2,773,880	69,525
Vehicles	13,705,876	326,853	13,705,876	343,526
Buildings & improvement	181,693,446	7,125,233	181,693,446	7,125,233
Furniture & fixtures	18,279,574	435,925	18,328,574	459,390
Plant equipment	114,582,149	4,493,418	114,582,149	4,493,418
<i>Total</i>	<i>7,913,933,973</i>	<i>302,884,810</i>	<i>8,101,303,872</i>	<i>307,448,930</i>
Less: Accumulated depreciation	(3,926,815,912)	(152,879,150)	(4,035,974,506)	(157,263,967)
<i>Total fixed assets – net</i>	<i>3,987,118,061</i>	<i>150,005,660</i>	<i>4,065,329,366</i>	<i>150,184,963</i>
Intangible assets				
Deferred charges – net	234,683,519	5,361,002	222,974,943	5,279,904
Goodwill – net	8,475,960	332,391	8,306,440	325,743
Other non-current assets	3,047,385	72,673	2,980,499	74,704
<i>Total non-current assets</i>	<i>4,321,025,456</i>	<i>157,809,376</i>	<i>4,387,291,779</i>	<i>157,902,964</i>
<i>Total Assets</i>	<i>4,951,402,933</i>	<i>172,842,415</i>	<i>5,013,054,806</i>	<i>173,587,192</i>

Table 2: Consolidated Balance Sheet as at 30th September 2003 – Liabilities & Shareholders' Equity

LIABILITIES & SHAREHOLDERS' EQUITY	30/6/03		30/9/03	
	THB	USD	THB	USD
Liabilities				
Current liabilities				
Trade accounts payable	74,016,870	1,757,382	81,882,873	2,042,150
Current portion of long-term loans	17,538,074	416,406	587,200,379	14,644,716
Advance received from charterers	58,018,771	1,377,539	58,330,968	1,454,768
Interest payable	3,501,292	83,131	65,848	1,642
Other current liabilities	164,470,670	3,905,025	155,799,606	3,885,626
<i>Total current liabilities</i>	<i>317,545,677</i>	<i>7,539,483</i>	<i>883,279,674</i>	<i>22,028,902</i>
Non-current liabilities				
Bonds	800,862,845	19,014,876	-	-
Long-term loans	2,687,942,268	63,819,779	2,422,980,089	60,428,868
<i>Total non-current liabilities</i>	<i>3,488,805,113</i>	<i>82,834,655</i>	<i>2,422,980,089</i>	<i>60,428,868</i>
<i>Total liabilities</i>	<i>3,806,350,790</i>	<i>90,374,138</i>	<i>3,306,259,763</i>	<i>82,457,770</i>
Shareholders' Equity				
Share capital – issued and paid-up	520,000,000	20,392,157	520,000,000	20,392,157
Translation adjustment	166,589,695	4,923,243	160,398,843	4,995,991
Premium on ordinary shares	926,054,829	36,315,876	411,429,745	16,134,500
Statutory reserve – the Company	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 (deficit)	(676,772,989)	13,691,551	454,752,355	44,489,935
<i>Total equity attributable to shareholders</i>	<i>1,098,019,439</i>	<i>81,351,580</i>	<i>1,648,228,847</i>	<i>89,668,787</i>
Minority interest – equity attributable to minority shareholders of subsidiaries	47,032,704	1,116,697	58,566,196	1,460,635
<i>Total Shareholders' Equity</i>	<i>1,145,052,143</i>	<i>82,468,277</i>	<i>1,706,795,043</i>	<i>91,129,422</i>
<i>Total Liabilities & Shareholders' Equity</i>	<i>4,951,402,933</i>	<i>172,842,415</i>	<i>5,013,054,806</i>	<i>173,587,192</i>



Table 3: Consolidated Income Statement for Nine Months Ended 30th September 2003

Consolidated Income Statement	6 Months to 30/6/03		Third Quarter		9 Months to 30/9/03	
	THB	USD	THB	USD	THB	USD
Revenues						
Vessel operating income	1,765,584,092	41,310,937	939,330,890	22,552,422	2,704,914,982	63,863,359
Service income	2,115,592	49,450	1,809,620	43,447	3,925,212	92,897
Gain on disposal of fixed assets	177,035	2,578	-	-	177,035	2,578
Exchange gains	34,356,829	-	129,686,976	-	164,043,805	-
Interest income	802,011	18,715	166,613	4,000	968,624	22,715
Other income	753,214	17,658	76,772	1,843	829,986	19,501
<i>Total revenues</i>	<i>1,803,788,773</i>	<i>41,399,338</i>	<i>1,071,070,871</i>	<i>22,601,712</i>	<i>2,874,859,644</i>	<i>64,001,050</i>
Expenses						
Vessel running expenses	546,372,244	12,785,601	276,259,886	6,614,845	822,632,130	19,400,446
Voyage disbursement	163,460,464	3,822,185	76,052,113	1,825,937	239,512,577	5,648,122
Bunker consumption	158,089,032	3,694,614	61,236,334	1,470,225	219,325,366	5,164,839
<i>Total vessel operating costs</i>	<i>867,921,740</i>	<i>20,302,400</i>	<i>413,548,333</i>	<i>9,911,007</i>	<i>1,281,470,073</i>	<i>30,213,407</i>
Cost of services	7,515,629	176,052	2,276,696	54,661	9,792,325	230,713
Administrative expenses	112,635,132	2,637,857	18,685,352	448,617	131,320,484	3,086,474
Bad debt and allowance for doubtful accounts	4,678,020	109,477	1,646,041	39,997	6,324,061	149,474
Exchange losses	-	1,269,230	-	308,708	-	1,577,938
Depreciation	221,880,722	8,451,723	109,158,594	4,330,006	331,039,316	12,781,729
<i>Total expenses</i>	<i>1,214,631,243</i>	<i>32,946,739</i>	<i>545,315,016</i>	<i>15,092,996</i>	<i>1,759,946,259</i>	<i>48,039,735</i>
<i>Income before interest and finance cost and income tax</i>	<i>589,157,530</i>	<i>8,452,599</i>	<i>525,755,855</i>	<i>7,508,716</i>	<i>1,114,913,385</i>	<i>15,961,315</i>
Less: Interest and finance costs	(129,414,086)	(3,027,671)	(94,413,008)	(2,266,764)	(223,827,094)	(5,294,435)
<i>Income before income tax</i>	<i>459,743,444</i>	<i>5,424,928</i>	<i>431,342,847</i>	<i>5,241,952</i>	<i>891,086,291</i>	<i>10,666,880</i>



Consolidated Income Statement	6 Months to 30/6/03		Third Quarter		9 Months to 30/9/03	
	THB	USD	THB	USD	THB	USD
Less: Corporate income tax	-	-	-	-	-	-
<i>Income before minority interest after tax</i>	<i>459,743,444</i>	<i>5,424,928</i>	<i>431,342,847</i>	<i>5,241,952</i>	<i>891,086,291</i>	<i>10,666,880</i>
Less: Net loss / (earning) of minority interest	(4,020,736)	(94,005)	(11,533,493)	(276,908)	(15,554,229)	(370,913)
<i>Net income before extraordinary items</i>	<i>455,722,708</i>	<i>5,330,923</i>	<i>419,809,354</i>	<i>4,965,044</i>	<i>875,532,062</i>	<i>10,295,967</i>
Gain on redemption of bonds	11,022,019	259,014	136,590,905	3,279,415	147,612,924	3,538,429
<i>Net income</i>	<i>466,744,727</i>	<i>5,589,937</i>	<i>556,400,259</i>	<i>8,244,459</i>	<i>1,023,144,986</i>	<i>13,834,396</i>
Transfer of statutory reserve – Company to offset deficit	-	-	60,500,000	2,372,549	60,500,000	2,372,549
Transfer of premium on ordinary share to offset deficit	-	-	514,625,085	20,181,376	514,625,085	20,181,376
Retained earnings, Beginning of the period	(1,143,517,716)	8,101,614	-	-	(1,143,517,716)	8,101,614
<i>Retained earnings, Ending of the period</i>	<i>(676,772,989)</i>	<i>13,691,551</i>	<i>1,131,525,344</i>	<i>30,798,384</i>	<i>454,752,355</i>	<i>44,489,935</i>
Earnings per share	8.98	0.11	1.07	0.02	1.97	0.03

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 30th September 2003 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 30th September 2003 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 30th September 2003 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 30th September 2003, 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 30 June 2003. 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 2003.

- 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.