Precious Shipping Public Company Limited

G Raghuram

Precious Shipping Public Company Limited (PSL) went through a process of financial restructuring in response to the economic crisis that hit Thailand in 1997. PSL faced trouble since payments were due in dollars and they had investments in Thai baht, which had devalued during the crisis. Being a professionally managed company with a high level of transparency in their transactions, they came out of the situation by managing to restructure their secured and unsecured debts. A large part of the unsecured debt proved a little more complex since it was tied to a swap. The case describes the financial restructuring process and the business scenario during the crisis, and provides an opportunity for learning about financial risk management.

Readers are invited to send their responses on the case to ***Vikalpa*** Office.

G Raghuram is a member of the faculty in the Public Systems Group of the Indian Institute of Management, Ahmedabad. e-mail: graghu@iimahd.ernet.in

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On 14th July 2000, the Board of Directors of Precious Shipping Public Company Limited (PSL) heaved a sigh of relief on concluding the process of financial restructuring of the company that was initiated in 1998. PSL, a handy size bulk carrier[1] operator with the largest fleet in Thailand, was hit hard when the economic crisis enveloped Thailand in 1997. It had to restructure its financial portfolio. Reflecting on their long battle for survival, Mr Khalid M Hashim, Managing Director of =x PSL, said, "Many astute decisions were taken in the early days, only to be overtaken by the events in Asia beyond the company's control. In terms of reputation, we haven't been sullied. In fact, I think, we should come out of this with a better reputation than we went in with." Countering the allegations that the investors of the company were left nursing hefty losses, Mr Hashim opined, "The entire restructuring was done in a very amiable manner. There is enough on the table for people not to feel bad. We have also shown that we are transparent."

By the second half of 2000, the PSL share values were on the upswing. Mr Hashim remarked, "What still remains to be done is to raise fresh equity at a reasonable price to buy back the Redeemable Convertible Debentures (RCDs). The equity so raised would also allow for the purchase of a few second hand ships in replacement of the older tween deckers[2] that are nearing the end of their useful economic lives. This is the final element that would ensure sustained financial viability of the company."

What started as an isolated case in Thailand in July 1997 quickly spread as a wild fire, engulfing the giant economies of South East Asia and the Far East. In 1998, the economies of Singapore, Korea, Taiwan, Malaysia, and Thailand contracted. These countries, growing at an astounding rate year after year during early 1990s, sank to their knees in the middle of their sprint (with the possible exception of China that

'Dry bulk carrier, typically in the range of 15,000 to 25,000 dwt, having low draft, generally requiring less than nine metres.

[2]Decks which separate the hold of a ship into two, making an upper and lower hold. Their purpose is to provide to separate levels of stowage for the cargo giving ease of access and helping to avoid compression.

managed to hold out on its own). The crisis brought in its wake recession, forcing many corporate houses in these countries to fold up. Survival became increasingly precarious and the search for remedial measures began in earnest. Financial restructuring caught the fancy of many a corporate sufferer. Not all succeeded.

But some managed to come out of the situation, PSL being one of them. While conceding to a few favourable strokes of fortune behind the ultimate success of the company, Mr Khalid Hashim rationalized, "What set us apart was our ability to identify the problems early on and our willingness to take on board all concerned parties through transparent and effective communications."

Company Background[3]

PSL was established on December 1, 1989 by the GP group of Companies, involved until then in international trading as Precious Shipping Limited. The GP group of companies had grown from the family firm of G Premjee, which prospered in rice trade in Burma during the 19th century and shifted its base to Thailand in 1918. Soon, the firm widened its sphere of operations to include many countries (South-East Asia, USA, and Argentina), a wider product portfolio (agricultural products, industrial raw materials, hospital goods, bulk Pharmaceuticals, chemicals, and jewellery), and other activities (real estate trading and civil construction).

Perceiving shipping as an important factor in the international grain trade, the group decided to get into shipping related activities. The GP group launched Geepee Corporation Limited to charter and conduct commercial management of vessels in 1984. In order tit Build up control over cargo movement, Geepee Lines was launched, accepting business from other chatterers and owners. The group formed Great Circle Shipping Agehcy Limited to add technical management of ships and recruitment of personnel. The group purchased seven second hand vessels between 1987 and 1989. With these developments, the group decided to float a shipping company(PSL) which would focus on ship owning and operations. The formation of a shipping company initially was conceived as a hedge for the group against increased operating cost due to high freight rates. Whenever the charter rates for carrying dry carg0 went up, the profit margin of the group obtained from international grain trading shrank, while earnings in shipping went up.

[3]Fpr more details, please see the case "Precious Shipping Public Co. Ltd." by Raghuram, G and Kothari, Anupama in *Shipping Management:Cases and Concepts,* edited by Raghuram, G *et al.,* New Delhi: Macmillan India Ltd, 1998.

PSL was established with a registered capital of 1 million baht on December 1, 1989. The commercial operations of PSL started in 1991. The company raised 600 million baht through equity shares during March and April 1991 and 122 million- baht in May 1991. The funds were used to purchase seven ships from the parent company. In September 1992, PSL raised 170 million baht through equity again and built its fleet strength to 12 ships. On September 13, 1993, PSL was granted "listed" status by the Stock Exchange of Thailand (SET). PSL shareholders approved the change of its status to a public limited company and changed its name to "Precious Shipping Public Company Limited" at the extraordinary shareholders' meetings held on December 20, 1993 and January 11, 1994. Subsequently, PSL registered the change of its status with the Thai Ministry of Commerce on February 18, 1994. The company was granted promotional privileges by the Thailand Board of Investments, exempting it from corporate income tax for a period of five years for vessels acquired before April 1, 1993 and for eight years for vessels acquired after that date. PSL also enjoyed the benefit of tax-free dividend payment facility. The company further raised 340 million baht in June 1993 to increase the fleet strength to 22 ships. By February 1995, the company had 27 ships. In November 1995, PSL raised 260 million baht to finance additional acquisition to a fleet strength of 35. No further equity was raised until mid-2000 and subsequent acquisitions were financed through retained earnings and loans. The history of equity formation is given in Exhibit 1. The major shareholders (owning at least 1%) of PSL are listed in Exhibit 2.

PSL successfully raised a total of USD 146 million by issuing Euro bonds and Thai debentures in 1995 at very favourable terms, with a view to continue the fleet expansion. PSL had an astonishing growth phase, growing from a fleet size of seven ships in 1991 to 48 ships in 1997. As of mid-2000, PSL owned 39 vessels. Three out of the 39 were in the final stages of negotiation for sale. The average age of the 39 ships was 14.5 years (the world average was closer to 18 years) and the average dwt was 16,300. With the proposed sale of the three ships each of which was 23 years old, the average age would further improve.

PSL decided to carve out a niche in the small handy size vessels market, with capacities ranging between 10,000 and 30,000 dwt. In 1995, 22 out of the 27 vessels were between 10,000 and 20,000 dwt. The PSL management found this size ideal for various reasons. The cargo parcel sizes of most of its clients were in this range. The small size of its vessels allowed it access to a large number of ports including shallower ports of developing countries with low draft restrictions.

All the PSL ships flew Thai flags (as against the flags of convenience). This allowed them easier entry to foreign countries and lower port surcharge, since some countries (like Australia) discriminated against flags of convenience. Having Thai vessels put them in an advantageous position to get government to government (G to G) shipping trades. The G to G trades usually occurred on non-recurrent basis and suited tramping companies like PSL with no fixed schedule.

Thailand was a developing economy with a vast coast-line and underdeveloped shipping industry. Being a professionally managed shipping company in Thailand, PSL was well placed to grow into an influential entity. Their disadvantages included a binding to employ Thai nationals as 75 per cent of their crew on board, and having to bring vessels to a Thai port for registration before commercial use.

People at the Top

Mr Khalid Hashim was supported by a top management team including five functionaries heading finance, commercial, technical, ISM and audit, and risk management. Mr Hashim reported to the Board of Directors. Two of the directors, Kirit Shah and Anjeli Shah, belonged to the GP family. Kirit Shah was the key decision maker from the family side. Three expatriate professionals, Khalid Hashim, Munir Hashim, and Khushru Kali Wadia, formed the Executive Board of Directors. One more expatriate director, Jaipal Mansukhani, looked after the technical function of the company. The other three members of the Board, including the Chairman, were nominees of financial institutions and eminent Thai nationals invited by PSL *to* join the Board.

Mr Khalid Hashim, the Managing Director, was 46 years of age, with his entire career having been spent in the commercial aspects of shipping. Academically, he holds the Masters Degree in Management Studies specializing in Finance from the University of Mumbai. He started off his shipping career with Tolani Shipping, Mumbai, He then moved to Singapore where he worked under the Minister of Shipping for the Maldives Government. He then joined the GP Group of Companies in 1984 setting up their Shipping Division in Bangkok and subsequently helped in setting up the company.

The most notable aspect of the top management was the professional background of all the executives and the policy of non-interference by the promoters. As an example of its professional management, the company sources had the following to say regarding their technical, team. "All the superintendents are first class marine engineers and had qualified from the Directorate of Marine Engineering and Training (DMET), the only institution of its kind in India. The superintendents are a closed-knit team and have known each other personally or through their profession. This brings in harmony of integrity and mind. Thus, work never suffers and is carried out with same understanding and efficiency, even if it is by many hands over a period. This is just another fine example of excellent team effort within PSL. The induction programme for the technical personnel is so designed that the engineers first sail on PSL ships as chief engineers, get thoroughly acquainted with men and machinery, and then take up management role as superintendents in the corporate office in Bangkok. Each member is fully authorized to take financial and commercial decisions, which makes their working very effective and keeps the fleet on the move."

Capital Structure

Apart from the equity, PSL had received secured long-term loans from banks and financial institutions, unsecured Euro Convertible Bonds, and Thai Baht Debentures.

Secured Loans: Exhibit 3 gives the secured loan outstandings over four years. These loans were repayable in either quarterly or semi-annual installments. The loans were secured by the following:

- Mortgage of 29 vessels of the company and sub sidiaries.
- Mortgage of fixed assets of one subsidiary.
- Pledge of shares of eight subsidiaries.
- Assignment of insurance of 29 vessels.
- Corporate guarantee by PSL.

Euro-Convertible Bonds: PSL's issue of convertible bonds (convertible into ordinary shares of the company) was approved in the ordinary shareholders' meeting held on April 4, 1994. The modification of terms and conditions of these bonds was approved in the extraordinary shareholders' meeting held on September 20, 1995. In this context, the company increased its authorized share capital by 4.25 million shares in order to reserve the shares for the exercise of conversion rights of the bondholders.

In November 1995, the company had issued convertible bonds of USD 45.561 million, listed on the London Stock Exchange. The bond bore interest at 3.25 per cent, payable annually until maturity on 30th

November 2000. Until one month prior to maturity, bondholders could convert their bonds into the company's ordinary shares at a price of baht 163.50 per share (subject to adjustment upon certain events), with a fixed rate of exchange of 25.12 baht per USD. Under certain circumstances, the company could redeem all, but not some only, of the bonds (at an increasing premium) at any date after 30th November 1998. At the maturity date, all remaining bonds were to be redeemed at 117.25 per cent of the principal amount. This redemption premium Was being accrued on a straight line basis over the five-year term of the bonds.

During 1996, 1997, and 1998, the company purchased and cancelled the bonds, referred to above, at a nominal value of USD 4 million, USD 3.5 million, and USD 7.285 million respectively. The company realized again on purchase amounting to approximately 9.04, 10.78, and 224.77 million baht respectively.

Unsecured Thai Baht Debentures: In the extraordinary shareholders' meeting held on September 20, 1995, the shareholders approved the issuance of debentures in Thai baht up to an amount of 3,000 million baht. In November 1995, the company issued unsecured debentures aggregating to 2500 million baht (2.5 million units at 1,000 baht each). These debentures had a maturity of five years with an interest rate of 12 per cent per annum, payable semi-annually.

The company entered into an interest rate swap and currency exchange agreement with a local bank to swap the interest rate from Thai baht (12% pa) to USD (7.81% pa) and to fix the principal of 2,500 million baht at USD 99,364,070. This agreement became effective on February 9, 1996 to remain until debenture maturity on November 9, 2000. Before and during the crisis, PSL had bought back debentures to the tune of 1,020 million baht, leaving an outstanding amount of 1$8Q million baht for financial restructuring. This amount was equated at USD 40.75 million, based on exchange rates in early 2000.

Crisis and Financial Restructuring

As of early 1997, the Thai economy had signs of leading to a financial crisis, with interest rates going up and banks having trouble in managing the cash flows. Some of the other economies of South-East Asia were also beginning to have similar problems. The recession in the shipping business was becoming more severe. In this context, PSL was not well placed with a significant amount of their outflows, especially financial, denominated in USD.

During the year, PSL incurred a net loss of 5,802 million baht. The shareholders' equity of the company decreased to (-)3,510 million baht. The total assets of the company increased to 9,659 million baht and the total revenues increased to 3,440 million baht. Almost the entire revejiue came from vessel operations. PSL felt that the cause behind their net loss was primarily continued weakness of the freight market. The Baltic Freight Index which had reached a nine year low in September 1996 recovered by December 1996 to 1,523 only to fall again to 1,229 by the end of 1997.

When the crisis became severe with the Thai baht being devalued (on 2nd July 1997) and made floating with the USD (the exchange rates after and just prior to devaluation are given in Table 1), the valuation of PSL suffered. (The resulting devaluation caused a wipe out of even up to 90 per cent of wealth of Thai entities in terms of US dollars. The import volumes decreased significantly, though the exports fared better.) The PSL management took this up as a challenge to ensure the survival of the company that they had built up. The only option was to financially restructure their (non-equity) liabilities, while continuing their efforts in running the business well. The key aspects of the financial restructuring, as viewed by the company, are given in Appendix.

PSL decided to have a financial advisor to help them through the restructure. The financial advisor was required to bring in a USD 25 million cash injection along with the proposal. Out of three contenders, Bank Boston of Singapore was selected. With the financial advisor, PSL drew up the objectives of the restructure

Table 1: Conversion Rates Between Baht and Dollar

Month/Year	*1997*	*1998*	*1999*	*2000*
January	26.00	54.92	36.86	37.51
February	26.00	42.92	37.44	38.02
March	26,00	38.80	37.64	37.87
April	26.00	38.71	37.24	38.05
May	26.00	40.22	37.10	39.16
June	25.00	42.31	36,90	39.18
July	32.07	40.83	37.13	41.45
August	34.33	41.96	38.36	-
September	36.62	39.31	41.04	
October	40.91	36.77	38.73	
November	40.14	36.11	39.05	-
December	47.24	36.69	37.52	-

Source: *PSL Data,* 2000.

as (i) to create a company that was a long-term survivor to the benefit of creditors, employees, and equity holders, (ii) to ensure fair and equitable treatment of all: stakeholders, and (in) to provide high quality financial information with transparency, allowing all parties to make informed decisions. The secured lenders were supportive of the restructure. Some of the options considered for the unsecured lending were to convert a significant portion of the debt at an acceptable share value or amend the terms of the lending by extending maturity date and having an option to exchange them with a Thai bank security. After considerable discussion, a restructuring plan that had elements of cash buy-out, part conversion into a zero coupon RCD, and part conversion into a loan with an extended maturity was agreed.

The Business Scenario During the Crisis

As of end} 1996, PSL had 38 vessels, with an aggregate capacity of 767,318 dwt, with an average age of 16.5 years. While the pace of acquisition had been at the rate of seven to eight vessels per year during the first five years of operation (until 1995), during 1996, only three vessels had been acquired, primarily because the freight rates had come down. The company was rated as the fourth best managed company in Thailand by *Asia Monty* magazine in 1996.

During 1997, PSL acquired six second hand ships, took delivery of four newly built vessels, and sold three vessels. The total strength of the fleet by the end of the year was 45 vessels with an aggregate capacity of 939,954 dwt and an average age of 14 years. In addition, the company had placed orders to build four more vessels with a shipyard in South Korea and paid USD 24 million towards pre-delivery installments. The company was to pay USD 35 million at various stages of completion! PSL, however, was aware that due to financial crisis, the shipyard in South Korea had sought court projection of its assets and consequently the company was exposed to a risk of non-delivery of the vessels. PSL, nonetheless, felt safe as the entire pre-delivery amount was secured by bank guarantees.

During 1998, although PSL achieved a net income of 3,275 million baht, it incurred a net loss of 108 million baht before considering exchange gain of 2,694 million baht and gain on acquisition/redemption of its bonds aggregating to 690 million baht. (PSL could acquire 734.72 million baht face value of Thai Baht Bonds and USD 7.285 million face value of Euro Convertible Bonds.) The company accredited the loss to the continued weakness of the freight market. The Baltic Fre%ht Index reached a record low of 780 points in August 1998 and increased only marginally to 791 points in December 1998. PSL, however, could contain the vessel operating expenses, which ultimately assisted in improving the operating results of the year.

During the year, PSL sold four vessels. The total fleet strength came down to 41 vessels with an aggregate capacity of 870,219 dwt. The sale of seven vessels during 1997 and 1998 brought down the average age of the fleet to 14.5 years and reduced the average operating expenses considerably. PSL also converted a vessel into a dedicated cement carrier in October 1998. After the conversion, the vessel was employed on a long-term charter and put under the joint ownership with Eric Thun Group of Sweden (PSL owned 64 % shares and Eric Thun 36 % shares in the vessel). As anticipated, the South Korean shipyard became bankrupt. Upon consequent cancellation of the four remaining orders for new ships with the yard, PSL could get refund in full together with interest from the guarantor banks. Both the cancellations of the order and the cash inflow were blessings for PSL, in the context of the recession and financial crisis.

The actual average daily rates of income and operating expenditure per ship from 1995 to 1999 are given in Exhibit 4. These were calculated from the beginning of one charter till the next, including the non* employment period. The average income had reduced from USD 7,100 per ship per day in 1995 to USD 4,712 in 1999. During 2000, the average income per day had gone up to USD 5,445 in the second quarter, while the operating expenses were USD 2,684 per ship per day. Exhibit 5 gives the average downtime in days per year per ship, due to operational and maintenance reasons.

Almost all the PSL vessels were on spot markets and trip time charters[4] during the crisis. Among the few long-term time charters, one of the character defaulted due to the crisis. As stated by one of the top executives of PSL, "We had the first two of our new buildings (Apisara Naree and Bussara Naree) given, on long-term period time charter to Jebsen Carriers Ltd, Bermuda, part of the Atle Jebsen group of companies of Bergen, Norway. These vessels were delivered to the character immediately upon their delivery from the shipyard (in November 1996 and March 1997) respectively. The time charter rates were fixed before the crisis struck in 1997. In 1998, the chatterers approached the owners to re-negotiate the rates by some USD 2000 per day for each vessel, citing depressed freight markets, etc. The owners

'Hiring (chartering) of a ship for a trip from a specified origin to a specified destination, but for a period of time (which would be different from the normal expected time for a trip charter).

did not agree and this finally culminated in default by the charterers who prematurely redelivered the vessels to the owners in April 1999. The chartering company filed for voluntary liquidation proceedings, though Atle Jebsen and his other group companies are still continuing in business as if nothing has gone wrong. We are pursuing Jebsens to recover our losses, close to around USD 2 million, inclusive of interest and legal costs."

During 1999, the vessel operating revenues decreased in baht terms from diat achieved in 1998. While there was a marginal fall in freight rates, the reduction could be mainly attributed to the lower average exchange rate and to a lesser extent, the reduction in average vessel operating days. Vessel operating costs also decreased in baht terms due to the latter two reasons.

In a Reuters report in July 2000, Khalid Hashim said he projected PSL to earn vessel revenues of USD 5,140 per day per ship during 2000, compared with USD 4J750 posted in 1999. For 2001, he predicted revenues to be USD 5,400 and USD *5',666* for both 2002 and 2003. However, he projected that revenues would decline to USD 4,530 in 2004 and to USD 4,079 in 2005 due to cyclical factors. Mr Hashim said that the revenue projection was made for its debt revamp and was rather conservative. He said, "As can be gauged from our past performances, we hope that we will not only be able to meet all our projections but that we would easily better them."

The Actual Restructure Plan

The secured lenders agreed to defer USD 24 million of their total debt of USD 82 million into a bullet repayment four years down the line. They, however, had an excess cash flow provision built in that would allow them to have this bullet repaid during the next four years. They had also agreed to revise the repayment schedule to match PSL's future projected cash flows.

The swap holder agreed to crystallize the swap and to accept the plan as drafted for the other unsecured lenders. This was done on 14th February 2000.

The unsecured lenders amounting to about USD 107 million (Euro Bond of USD 35 million, swap of USD 31.25 million, and domestic bond of USD 40.75 million) agreed that USD 24 million would be taken in cash and USD 36 million would be converted into a zero coupon RCD, with a three -year maturity. The balance of USD 47 million would become a commercial loan with a 6 per cent coupon and a final maturity of five years. The commercial loan would be repaid partly in 2001 (USD 7 million) and 2004 (USD 33), with the final balance being repaid in year five post-restructure, subject to refinancing the debt-free fleet of ships in the company at each of these points in the future. The company had the right to call the whole or part of the USD 36 million of RCD in the first six months post-restructure at USD 15 million, i.e., at a discount of almost 60 per cent of its face value. This discount would gradually diminish till it would disappear altogether in two years and six months post-restructure. Once the RCD was callable at par, the note holders would have the option to convert the same into equity in two years and eight months and two years and ten months post-restructure. At three years post-restructure, the RCD would automatically convert into equity. In all such cases, the equity conversion price would be the average market price over the previous trading month less 5 per cent discount.

The Effect of the Economic Crisis

The financial impact of the crisis and the restructuring on PSL's performance can be gathered through Exhibits 6, 7, 8, and 9, which provide the financial highlights, balance sheet, income statement, and cash flows respectively for the years 1995 to 1999.

The business of the company was predominantly carried on in US dollars. But the financial statements were prepared in terms of Thai baht. This resulted in the understatement of assets and the shareholders' equity. Exhibits 10 and 11 give the unaudited USD balance sheet and income statement of PSL for the years 1997, 1998, and 1999. Of the revenues derived by the company during 1997, 94 per cent (about 3,263 million baht) was derived in US dollars or non-baht currencies. Of the total assets, 97 per cent (or about 15,270 million baht based on notional revaluation of assets corresponding to 9,245 million baht at book value) carried their value in US dollars. Of the liabilities, 95 per cent (or about 12,523 million baht) was payable in US dollars or currencies other than baht. Had the company revalued its fixed assets to the US dollar equivalent value, the shareholders' equity would have been up by 6,025 million baht. (Instead of (-)3510 million baht, the shareholders' equity would have been 2,515 million baht.) Considering this aspect, PSL found their capital structure satisfactory. They, however, found it necessary to strive to enhance the capital base and reduce the overall debt level.

As the restructuring process came to a close, the company auditors chose to be cautious in their remarks as stated below:

> The operations of the company and its subsidiaries have been affected, and may continue to be affected for the foreseeable future, by the adverse economic conditions in Thailand and

Asia Pacific region. Further, it is not possible to determine the future effect the continuation of the economic crisis may have on the company's and its subsidiaries' liquidity and earnings, including the effect on transactions with the company's investors, customers, and suppliers. The ultimate outcome of this matter cannot presently be determined. As on December 31,1999, the company's current liabilities (including loan due upon demand of approximately 158.15 million baht and debenture and bonds due within one year of approximately 4907.56 million baht) exceed its current assets by approximately 3938.62 million baht, and incurred net loss for the year ended December 31, 1999 of approximately 56.35 million baht. In addition, the company and certain subsidiary companies defaulted on payment of loan.

There are significant uncertainties that may affect future operations, the recoverability of the company's and its subsidiaries' assets, and the ability of the company and its subsidiaries to maintain or pay their debts as they mature. The ultimate effect, which may be material, of these uncertainties on the stated amounts of assets and liabilities at the balance sheet date cannot presently be determined. These factors raise substantial doubt that the company will be able to continue as a going concern. The accompanying financial statements have been prepared on the basis that the company and its subsidiaries will continue as a going concern, considering that the financial restructuring may be successful. The accompanying financial statements do not include any adjustments relating to the recoverability of the carrying value of assets of the amount and the reclassification of liabilities that may be necessary if the restructuring does not succeed.

The top management, however, was not only relieved, but also saw the future with great optimism.

Appendix: Excerpts from 'Anatomy of a Successful Financial Restructure'[5]

Background

The dramatic collapse of the freight markets during the second half of 1997 and the debacle that followed in the next two years was sufficiently severe to bring even the strongest shipping companies to their knees. The financial toll exacted on PSL was no leps severe. At the start of 1997, we had about USD 100 million in cash in deposit with local financial institutions. These deposits allowed us a 'zero' interest outflow for the first six months of 1997 despite the fact that we had a total outstanding debt of a little over USD 255 million! This was a remarkable feat by any standards but was achieved more by default than by design. We had raised funds towards the end of 1995 and had held them in cash during 1996 as it was not an opportune time to buy second hand ships because values were still falling in our sector. By early 1997, the situation in Thailand was getting quite alarming with interest rates being paid by the weaker financial institutions being so high that it was only a matter of time before they went *kaput.* At the same time, the fall in price of second hand ships had slowed down whilst many more ships were heading for the scrap yards than were being delivered from the builders. This shrinkage in the wojrld fleet in our sector indicated that the fall in second hand prices should be slowing down or reversing in the near future. Ttye time, it seemed, had arrived to enter the sale and purchase market for second hand ships. Another factor weighing on our minds, at the time, was the likelihood or otherwise of devaluation of the Thai baht. This factor assumed even greater significance as all our loans were USD denominated whist our cash deposits with the local financial institutions were in Thai baht. A potentially volatile and explosive financial situation was brewing.

With this backdrop in mind, we entered the second hand market and purchased seven ships by June 1997 for a total outlay of USD 80.5 million. As a result, on 2nd July 1997, when the Thai baht was devalued, we just had a little under USD 3 million equivalent in Thai baht that was transferred into USD the very next day. We also took delivery of another four brand new ships from the South Korean yard during 1997 costing USD 60 million. We had survived the debacle facing most businesses in Thailand with this 'astute' move of converting all our Thai baht cash holdings into USD denominated assets. And we would have been all right had the devaluation in Thailand been limited in nature and net spread to the rest of the neighbourhood. But the rest, as they say, is history.

With the Tiger economies of South-East Asia collapsing into the dust one after another and South Korea joining them in the dumps, demand for cargo movement virtually collapsed overnight, exacerbating the already precarious situation of the freight market. We were well and truly caught with a lot of high quality young ships in a collapsing freight market. The value of these assets contracted sharply and all the foresight of having avoided the devaluation of the Thai baht and the collapse of the Thai financial institutions came to naught. We were in very deep 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 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 kept us afloat during the second half of 1998 and the first half

'Source: Excerpted from "Anatomy of a Successful Financial Restructure: PSL - A Case Study," by Khalid Hashim, *www.precious**shipping.com,* 2000.

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 realized we needed to tackle our financial structure post haste if we were to be one of the survivors in the new millennium.

Financial Advisor and Model

The search for a financial advisor started in real earnest during the last quarter of 1998 with three companies being short-listed. We prepared a detailed presentation for each of these three companies that would take them through the entire restructuring exercise that we were contemplating. It was also designed to make an extremely transparent presentation of our company, warts and all. Though each of these companies had planned for a three day 'due diligence' exercise, they were so overwhelmed with our presentation that each of them departed in a day, promising to get back with questions if anything remained unclear. The next few weeks were spent in answering their questions after which we invited them to make an offer for the job of financial advisor. The one thing that we had insisted upon was for an underwritten USD 25 million cash injection that they were to bring to the table along with their advisory proposal. 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 secondly, it would give our creditors mat much more confidence in any proposal that our financial advisors would put up. We ultimately selected Bank Boston, Singapore, to act as our financial advisors. The final selection was made due to their geographical proximity, reputation, and size. The losing contenders were New York-based and relatively unknown in Thailand. This selection was ratified by our Board of Directors' meeting in the end of M'ay 1999. The search for a solution had now begun in earnest.

By the end of June 1999, Bank Boston had been able to not only understand our business well enough, but were a|)le to, with the help from our management team, develop a financial model for the company. This model looked at each individual ship's cash flow. To arrive at these numbers, we had to forecast over the next few years, for each ship, (i) the daily operating cost, (ii) the earnings potential, (hi) thle annual downtime, and (iv) when she would or should be disposed of. Having arrived at the workable cash flow model of the company, we used a shipping expert to value the assets (primarily ships) of the company.
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Secured Leaden

Armed with the asset valuation report and the Bank Boston model, we approached our secured lenders, i.e., those banks that had lent us money against the mortgage of our ships. We showed them that under the existing market conditions, there was n*o* way that we could live up to our principal repayment obligations. The first thing that we needed was some sort of a moratorium to allow us time to negotiate with our unsecured creditors. Starting sometime in the last quarter of 1998, we had commenced informing our secured lenders of our precarious financial health to get them mentally prepared for a full-blown restructure. This continuous early warning worked wonders. Within a very short while of under two weeks, we were able to 'sell' the model to our secured lenders, and had worked out an 'in principle' agreement with them. This agreement had three important components: (i) it granted us a six-month principal deferral agreement (PDA) which would help rebuild our cash position, (ii) die time would be used to get an 'in principle' agreement with our unsecured creditors, and (iii) it revised the amortization schedule based on our future cash flows. The reason we were able to get this done so quickly was due to a combination of factors including (i) our exemplary financial profile right up to the middle of 1999, where we had never been late on a single interest or repayment schedule, (ii) our constant, open, and transparent financial and corporate communication with our banks, (iii) the very tight ship that we ran both in terms of operating costs as well as In terms of daily income, which was better than our closest competitor, and (iv) the refund from the South Korean shipyard which was the magical wand that ultimately tipped the scales in our favour.

Now that the immediate pressure was dealt with, we were free to analyse the few non-core assets of the company. We came to the firm conclusion that there was nothing of real value that could be sold and that we should not waste any time exploring this aspect. We had to go through this analysis as this was one area that the creditors were bound to focus on during the restructure process. And it is always a sound policy to be forearmed.

Unsecured Creditors

We next had to get our unsecured creditors on board. To complete this phase successfully, we decided to work on each of the unsecured creditor groups separately.

***Euro Bondholders**:* We started with the Euro Bondholders. Our strategy of choosing them as the first group to work with was very simple. They were the most sophisticated of our creditors and were aware of what was going on in the international shipping markets. Many of them were already involved, to some degree, in the various high yield Yankee Bonds that had been issued during 1996 to 1998. Of the roughly USD 6 billion Yankee Bonds that had been issued, USD 2.5 billion had already defaulted or were near default situations. These bonds were trading in the market at rates varying from 5 cents to 45 cents on the dollar with many issues not even having paid a single coupon! With this background, we felt that we would have a relatively easier time in getting them on board our restructure plan. We started working on them in the last week of June via conference calls facilitated by the Bond's trustee. This was followed up with two face-to-face meetings in August 1999, organized once again at the office of and under the auspices of the Bond's trustee in London. We also used this opportunity, whilst in London, to conduct one-on-one meetings with the major bondholders at their offices to 'sell' them the plan that we had worked out. A few" more conference calls were made with the trustee in attendance by which time we had a working agreement with the majority of the bondholders that had been attending these meetings. This was accomplished in the first half of September 1999.

***Domestic Bondholders and Swap Transaction Holder**:* We now had to deal with, potentially, our most contentious group of creditors, our domestic bondholders and our swap transaction holder. There was a peculiarly Thai problem that we had to contend with. Most debtors in Thailand could meet their obligations but consciously chose not to. Strategic non-performing loans were the talk of the town. Creditors were naturally wary when a company such as ours, which had never defaulted and which apparently had a reasonably strong cash flow, wished to discuss terms of a restructure. We had a serious credibility problem! Unless we could persuade our creditors that there was a genuine problem and unless it was tackled quickly, we would be in a mess that would be very hard to piece together. Fortunately for us, more than 85 per cent of the outstanding domestic bond was concentrated in five hands. Together with Bank Boston, we made detailed one-on-one presentations to each of these five companies. Thereafter;, we called all of them together and made detailed presentations to them to show that the plan proposed by the company was potentially the best that was available. At this stage, in the early part of the last quarter of 1999, it appeared that we might have got the plan accepted by the domestic bondholders and the swap holder. But it was not to be that simple or straightforward. The domestic creditors decided that they wanted to come up with their own plan and drive the restructure process. This is when things slowed down and became rather expensive.

***Creditors Steering Committee**:* In the first week of October 1999, the creditors put together a Creditors Steering Committee (CSC) that instructed us to appoint an independent financial advisor to review all our current financial statements. Tltey were also to check out the arithmetical accuracy of the Bank Boston model and the valuations of our ships. Ferrier Hodgson (FH) was appointed in the last few days of October 1999 along with a shipping expert to assist FH to complete its mandate. By the 9th November 1999, FH and the shipping expert had confirmed in writing thit all our current financial statements, the Bank Boston model, and the bulk of the business assumptions made in our projections were all accurate. Simultaneously, we were working with the domestic bondholders to have the interest payment date deferred from the 9th November 1999 till the 23rd February 2000. This special resolution was passed on the 9th November 1999. The CSC further instructed us to appoint FH to assist the CSC in formulating a plan that would be acceptable to all the unsecured leaders. FH was duly appointed in the middle of November 1999 to formulate such a plan and monitor our cash flow on a monthly basis.

Tlie process had now virtually slowed down to a crawl. However, soon after we had an "in principle" agreement in place with our secured lenders, the CSC allowed the company to 'buy back a limited amount of its unsecured debt at a cost not exceeding 40 per cent of the face value of the debt. We were offered about USD 4.9 million of such debt for confirmation and payment prior to 31st December 1999. With the PDA with the secured lenders in place, our cash-on-hand position was healthy enough for us to accept the debt that was on offer prior to the deadline.

In the meantime, the interest payment date for the Euro Bond, due on 30th November 1999, needed to be deferred. The meeting was scheduled for 7th December 1999, but because of a lack of quorum, was adjourned to 22nd December 1999, when this special resolution was passed deferring interest payment to 23rd February 2000. We were also working on the swap transaction holder but with little success. They would not let us know when they would crystallize their debt. This was an uncertainty that we could not live with and we needed to get them on board if we were to successfully complete the restructure process.

Finally, after many hours of meetings of the CSC, the restructure plan was formulated by FH and sent out to all the creditors in the middle of January 2000. We fixed up a seminar at our office in the 3rd week of January 2000 to explain the plan. This was followed by meetings between the respective stakeholders. After a lot of soul searching, the creditors realized that the final plan from FH was identical in shape and form to the initial plan as proposed by us. At this stage, the swap transaction holder agreed to crystallize our liability. We managed to successfully unwind this transaction prior noon on 14th February 2000 at a value of USD 31.25 million. On the same day, in the afternoon, the final plan was put to a vote and was accepted 'in principle' via a non-binding resolution of the domestic bondholders. This plan was also acceptable 'in principle' to the swap transaction holder subject to proper legal documentation. That only left the Euro bondholders from whom we needed a similar resolution. We held the scheduled meeting on 22nd February 2000, only to be frustrated by the lack of a quorum. The saving grace was that all those attending die meeting had voted in favour of the final plan. The meeting was adjourned to 8th March 2000 when the Final Plan was passed by an 'in principle' but non-binding resolution.

***Legal Documentation**:* In anticipation of the acceptance of the final plan by all our creditors, we had appointed legal counsel to represent each group of stakeholders during February itself. Stephenson Harword, Singapore, and Johnson Stokes and Masters, Hong Kong, were appointed on behalf of the secured lenders; Fresh fields, Singapore, on behalf of the Thai unsecured creditors; Clifford Chance, London on behalf of the trustee of the Euro bond. Linklaters, Bangkok, represented us. All in all enough lawyers to drive you crazy! 1> their credit, it must be stated that each of them acted in a professional manner and we were able to complete a substantial amount of the legal documentation in time for the Annual General Meeting of the shareholders of the company. At the shareholders' AGM on 28th April 2000, though the final plan in its legally documented garb had not yet been presented, the shareholders passed the restructure with the requisite majority subject to all creditors signing the plan subsequently. The legal documentation saga continued right to the middle of July when we held a signing ceremony. The restructure was finally complete!

The Final Score Card

What does all this mean in dollars and cents? What have we done in terms of plain numbers? If we draw up a final score card, it would look something like this:

- We deferred USD 13 million of principal payments on our secured loans for about six months in 1999. If we apply a discounting rate of 15 per cent pa, this translates to a benefit of almost half a million USD in present value terms. The rnoney we retained from the above deferrals of principal payments was put to good use by buying back some of our own debt of about USD 10 million at a discount of over 60 per cent to nominal values. In the bargain, we made a profit of over USD six million.
- As a part of the secured debt restructure, we also rescheduled USD six million of principal payments due in year 2000. Once again, this translates to a benefit of almost half a million USD in present value terms.
- We crystallized our USD 100 million currency swap at a terminal value of USD 31.25 million. If we had terminated the swap based on the spot exchange rate, the value would have been almost USD 33 million and we, therefore, made a profit of about USD 1.70 million on this transaction. Of course, a lot of this had to do with the timing of the deal and, in that sense, we were plain lucky.
- Irrespective of the profit on the termination of the swap, we di4. not have the money to come up with the termination amount of USD 31.25 million, and in that sense, the profit was theoretical. However, we managed to convince Bangkok Bank, the swap holder, to convert this amount into an unsecured loan which then took part in the final restructure. This was converted into an unsecured loan of 31.25 million from Bangkok Bank @ 7.81 per cent pa, interest to be paid until the effective date of the restructure.
- As a plart of the restructure, about USD 6.50 million of this Bangkok Bank loan has been compulsorily converted to the cash/RCD option. If we manage to redeem the RGB within the end of this year, we would be making a profit of about USD 2.30 million! Moreover, the balance of *USf)* 24.75 million is converted into a five-year commercial loan with interest @ 6 per cent pa. If we compare this interest rate with our normal average cost of borrowings, it would amount to a net savings of about a million USD in present value terms.

We did not pay the interest due on the Thai Baht Debentures and the Euro Bonds due in November, 1999 until 31st March, 2000. Once again, this translates to a marginal benefit of almost 0.20 million USD in present value terms.

The Euro Bonds were given the cash/RCD option only, and if we manage to redeem the RCD within the end of this year, we would be making a clean profit of USD 12.20 million!

A certain portion of the Thai Baht Bonds are compulsorily required to take the cash/RCD option and this number is now crystallized at USD 18.60 million. Once again, if we manage to redeem the RCD within the end of this year, we would be making a clean profit of over USD 6.50 million!

The balance of the Thai Baht Bonds are converted into a five-year commercial loan with interest @ 6 per cent pa. If we compare this interest rate with our normal average cost of borrowings, it would amount to a net savings of three quarters of a million USD in present value terms.

In a nutshell, the obvious achievement of the restructure is that we avoided the potential threat of liquidation or a protracted litigation with our unsecured creditors. In the bargain, simply put, the net result, of the restructure exercise on our post-restructured balance sheet would be a reduction of USD 36 million of debt and an equal increase in the shareholders' funds/equity. However, in the best scenario, while USD 21 million of this increase would benefit the existing shareholders, the balance of USD 15 million would carry the price of a dilution to the current shareholders. The exact percentage of dilution remains to be seen.

Exhibit 1: Equity History of PSL

	No of Shares Released (WO)	*Price (Baht)*	*Amount Raised (Million Baht)*	*Method*
December 1989	100	10	1.00	(a)
March 1991 April	12,530	30*	375.90	Rights (b)
1991 May 1991	5,370	42*	225.54	Rights (c)
September 1992	2,000	61	120.00	(d)
June 1993	2,000	85	170.00	(e)
November 1995	4,000	85	340.00	IPO (Public)
	26,000	10	260.00	Rights (f)

The total number of shares released until July 2000 was 52 million, as above. The total equity amount raised was 1492.44 **million baht.**

The company began with an authorized share capital of 260 million baht (26 million shares at par value of 10 baht per share). This was increased to 302.5 million baht (30.25 million shares) on April 4, 1994 (in the context of the Euro-Convertible Bonds) and further to 605 million baht (60.5 million shares) on September 20, 1995.

* Effective price of 33.33 baht per share for 18 million shares.

Source: *PSL Annual Reports.*

Notes: (a) GP group formation. (b) Offered to local sharesholders
(c) Offered to foreign shareholders. (d) Offered to employess
(e) Offered to local shareholders. (e) Offered to bond and debenture holders.

Exhibit 2: Major Shareholders of PSL

Name of Shareholder	*Share (%)*
Globex Corporation Ltd	36.07
Thai Securities Depository Co Ltd. (Foreign)	25.11
Thai Securities Depository Co Ltd. (Thai)	17.6
Graintrade Ltd	5
Siam Commercial Bank PCL	7.06
Miss Sameera Shah	4.5
Somprasong Land PCL	2
Mr Suphat Sivasriumphai	1.58
Mr Munir Moinuddin Hashim	1.35
Others	1.31
	1.03
	4.32

Source: *PSL Annual Report,* 1999.

Note: Globex Corporation is the parent company floated by the promoters (family of G Premjee). Thai Securities is an organization that takes deposits from retail investors and invests in companies (somewhat like the UTI). Graintrade Limited is a trading company in foodgrains. The remaining shareholders are banks and individuals.

Exhibit 3: PSL's Secured Long-term Loan Outstanding

	Loan Amount	*Taken From*	*Mode of Repayment*
December 31, 1996	USD 87.16 m Indian Rs 88.75m	Banks and Financial Institutions	Quarterly or Semi-annual Installments
December 31, 1997	USD 111.4 m Indian Rs 71.25 m	Banks and Financial Institutions	Quarterly or Semi-annual Installments
December 31, 1998	USD 87.28 m Baht 472.9 m Indian Rs 46.88 m	Banks and Financial Institutions	Quarterly or Semi-annual Installments
December 31, 1999	USD 66.9 m Baht 544.0 m Indian Rs 21.25 m	Banks and Financial Institutions	Quarterly or Semi-annual Installments

Source: *PSL Annual Reports.*

Exhibit 4: Daily Rates per Vessel

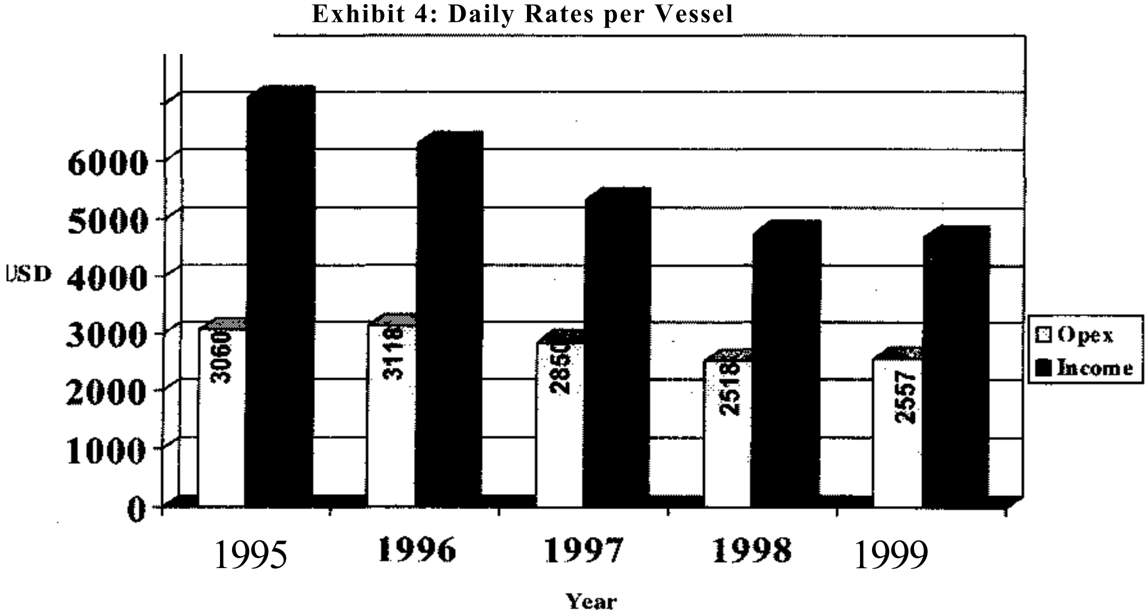

Exhibit 5: Average Downtime per Year per Vessel

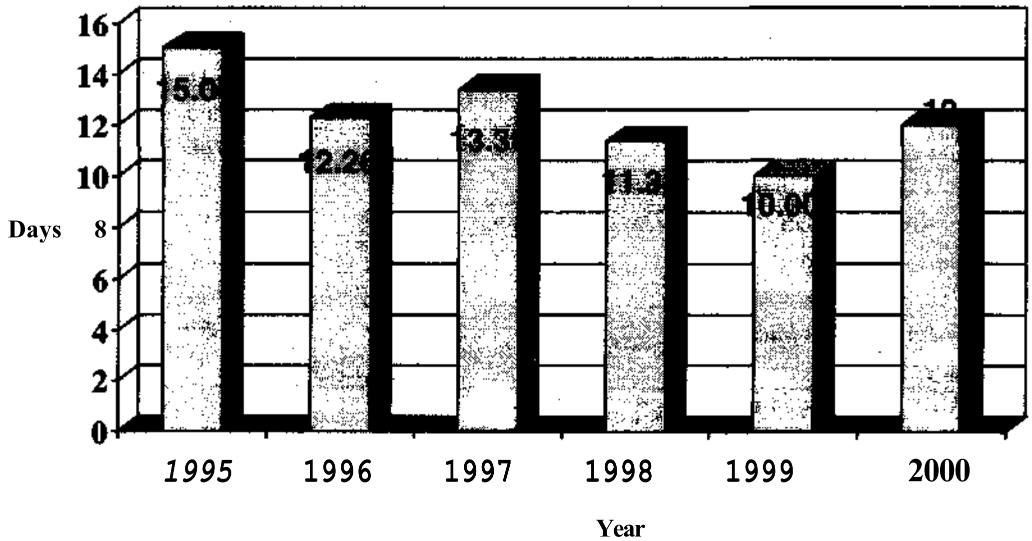

Exhibit 6: PSL's Financial Highlights

Million Baht

Particulars -	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*	*1993*	*1992*	*1991*
Total Assets	7,600.79	8,621.06	9,659.33	9,175.22	8,347.37	2,939.26	2,380.36	1,473.32	1,232.42
Fixed Assets (Net)	6,400.63	7,737.44	8,616.01	5,396.13	4,502.78	2,667.94	2,176.72	1,278.34	1,179.48
Total Borrowings	6,976.93	8,052.56	12,233.12	6,419.98	5,745.11	1,131.93	789.85	313.10	368.64
Shareholders' Equity	(293.80)	(231.34)	(3,510.05)	2,407.23	2,291.55	1,680.01	1,466.56	1,002.47	806.27
Paid-up Capital	520.00	520.00	520.00	520.00	520.00	260.00	260.00	220.00	200.00
Vessel Operating Revenues	3,590.60	4,101.68	3,099.11	2,807.00	2,348.20	1,505.71	972.02	744.43	357.75
Vessel Operating Costs	2,432.88	2,722.28	1,848.48	1,726.55	1,198.50	852.28	548.11	448.68	211.75
Gross Profit	1,157.72	1,379.40	1,250.63	1,080.45	1,149.70	653.43	423.91	295.75	146.00
Total Revenues	3,742.73	4,618.32	3,351.78	3,244.42	2,461.61	1,524.84	979.52	747.76	369.55
Total Cost (Excl Depreciation)	3,202.31	3,723.09	3,023.55	2,342.55	1,543.70	963.80	630.59	496.16	238.90
Depreciation	674.05	705.20	680.42	548.69	408.72	276.58	174.69	110.32	45.67
Unrealized Exchange Profit	(161.55)	2,395.31	(5,462.85)	-	-		-	-	
Extraordinary Items	238.83	689.58	13.45	-	-	-	-	-	-
Net Profit (Loss)	(56.35)	3,274.93	(5,801.60)	353.18	509.19	284.46	174.23	141.29	84.98
Adjusted Net Profit (Loss)*	(133.63)	190.04	(352.19)	353.18	509.19	284.46	174.23	141.29	84.98
Book Value per Share (Baht)	(5.65)	(4.45)	(67.50)	46.29	44.07	64.62	56.41	45.57	40.31
Earnings per Share (Bate)	(1.08)	62.98	(111.57)	6.79"	17.39	10.94	7.34	6.97	8.72
Dividend per Share (Baht)	0.00	0.00	0.00	3.00	4.50	6.00	4.00	4.00	1.25
Gross Profit Margin (%}	32.24	33.63	40.35	38.49	48.96	43.40	43.61	39.73	40.18
Net Profit Margin (%)	(3.57)	4.11	(10.51)	10.89	20.69	18.65	17.79	18.89	22.99
Return on Equity (%)	-	-	-	15.40	29.64	18.97	14.86	16.65	14.44
Return on Total Assets (%)	(1.65)	2.08	(3.74)	4.03	9.02	10.69	9.04	10.44	13.79

Source: *PSL Annual Reports,* 1998, 1999.

'Figures are derived by adjusting unrealized loss/gain on exchange difference and extraordinary items.

Exhibit 7: PSL's Consolidated Balance Sheet (As **on 31st December)**

Million Baht

	1999	*1998*	*1997*	7555	7555
ASSETS					
CURRENT ASSETS					
Cash in Hand and at Banks	261.98	149.27	173.27	90.00	74.82
Short-term Investments	-	-	-	2,626.08	3,121.53
Investment in Marketable Securities	1.12	-	9.78	301.47	77.37
Accounts Receivable-Trade	142.87	120.36	220.98	191.67	139.46
Receivable from Associate Companies	11.37	-	19.06	39.05	3,19
Bunker Oil	93.93	56.70	66.03	47.41	45.20
Other Current Assets	300.16	176.28	189.23	190.99	147.50
Total Current Assets	811.43	502.60	678.35	3,486.68	3,609.08
INVESTMENTS IN SHARES OF ASSOCIATE COMPANIES	137.39	113.34	70.80	27.42	-
FIXED ASSETS	6,400.63	7,737.44	8,616.01	5,396.13	4,502.78
OTHER ASSETS					
Differed Charges-Net	200.91	204.03	210.15	202.24	215.61
Other Assets-Net	18.92	26.36	48.58	25.33	19.90
Total Other Assets	219.84	230.39	258.73	227.57	235.51
EXCESS OF INVESTMENTS IN SUBSIDIARIES OVER BOOK VALUE	31.50	33.47	35.44	37.41	-
TOTAL ASSETS	7,600.79	8,617.25	9,659.33	9,175.21	8^47.37
Million Baht	7555	*1998*	*1997*	*T99€*	7555
LIABILITIES AND CAPITAL DEFICIENCY					
CURRENT LIABILITIES					
Loans from Banks and Financial Institutions	0.65	258.23	0.00	.654.53	67.10
Accounts Payable	209.92	303.59	265.25	65.96	87.93
Payable to Subsidiaries and Associate	0.00	23.17	0.00	0.00	0.00
Advance Received From Charterers	65.72	59.05	79.14	51.11	52.80
Current Portion of Long-term Loans	567.88	1,080.14	1,338.42	63»,37	6,644.01
Portion Of Loans Due upon Demand	2,396.71	0.00	0.00	0.00	0.00
Debentures and Bonds	3,887.84	0.00	0.00	0.00	0.00
Interest payable	391.30	214.44	258.75	84.25	71.50
Income Tax Payable	0.00	0.00	0.00	0.00	1.91
Other Current Liabilities	185.12	141.02	273.49	107.12	66.54
Total Current Liabilities	7,705.13	2,079.65	2,215.06	1,596.35	1,012.18
LQNG-TERM LOANS-NET OF CURRENT PORTION	123.85	2,655.04	4,372.54	1,515.93	1,363.65
DEBENTURES AND BONDS	0.00	4,059.15	6,522.16	3,616.14	3,649.96
TOTAL LIABILITIES	7,828.98	8,793.83	13,109.75	6,728.42	6,025.78
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	65.60	58.15	59.63	39.56	30.04
CAMTAP DEFICIENCY					
Share Capital-Common Share, Baht to Par Value					
Authorized Share Capital					
Issued and Fully-paid up Share Capital	520.00	520.00	520.00	520.00	520.00
Cumulative Transition Adjustment	55.30	52.86	44.45	(0.50)	(1.64)
Premium on Share Capital-Net	926.05	926.05	926.05	926.05	926.05
Retained Earnings					
-Appropriated for Reserve Fund	60.50	60.50	60.50	60.50	60.50
-Appropriated for Legal Reserve	77.47	77.47	63.93	60.44	42.78
-Appropriated for General Reserve-Subsidiary Company	24.18	19.25	14.61	11.46	0.00
-Unappropriated Deficit	(1,957.30)	(1,890.86)	(5,139.59)	829.28	743.86
TOTAL CAPITAL DEFICIENCY	(293.80)	(234.73)	(3,510.05)	2,407.23	2,291.55
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	7,600.79	8,617.25	9,659.33	9,175.21	8,347.37

Source: *JPSL Annual Reports.*

Exhibit 8: PSL's Consolidated Statements of Income and Unappropriated Retained Earnings

Million Baht

	1999	*1998*	*1997*	7555	7555
REVENUES					
Vessel Operating Income	2,590.60	4,101.68	3,099.11	2,807.00	2,348.20
Service Income	99.89	145.00	230.56	148.57	-
Unrealized Gain (Loss) on Investment in Marketable Securities	1.12	(9.78)	-	-	-
Gain on Disposal of Vessels and Equipment	.1.41	53.65	-	-	-
Interest Income	12.61	10.07	96.89	286.57	66.66
Other Income	37.11	9.40	13.31	1.59	46.74
Total Revenues	3,742.73	4,310.02	3,439.87	3,243.73	2,461.61
COSTS AND EXPENSES					
Vessel Operating Costs	2,432.88	2,721.76	1,848.48	1,689.35	1,198.50
Cost of Services	42.26	73.07	119.79	77.45	-
Administrative Expenses	148.33	158.46	126.04	78.32	68.01
Loss (Gain) on Disposal of Vessels and Equipment-Net	-	-	37.34	(0.45)	-
Unrealized Loss on Investment in Marketable Securities	-	-	291.69	- .	-
LQSS (Gain) on Exchange Rate-Net	122.64	(2,693.83)	48.08	88.78	-
Depreciation	674.05	705.20	680.42	548.69	408.72
Interest and Financial Costs	597.98	739.41	541.65	408.57	264.48
Total Costs* and Expenses (Income)	4,018.15	1,704.06	3608.07	2,890.72	1,939.71
INCOME (LOSS) BEFORE IT, MINORITY INTEREST AND EXTRAORDINARY ITEMS	(275.42)	2,605.95	(256.29)	353.01	521.90
INCOME (LOSS) BEFORE IT, MINORITY INTEREST AND EXTRAORDINARY ITEMS	(275.42)	2,605.95	(256.29)	353.01	521.90
Ifleome Tax	5.27	3.28	1.63	1.56	2.09
INCOME (LOSS) BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS	(280.68)	2,602.68	(257.92)	351.45	519.81
Minority Interest in Subsidiaries	(14.49)	16.68	(5.75)	7.32	10.61
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(295.17)	2,586.00	(263.67)	344.13	509.19
Extraordinary Items					
Loss on th^e Change in Foreign Currency Exchange Over to the Managed Float System-Net	-	-	(5,551.37)	-	
Gain on Redemption of Bonds (Net of Income Tax)	175.90	689.58	13.44	9.04	-
Gain on Settlement of Debt (Net of Income Tax)	62.92	-	-	-	-
Total Extraordinary Items	238.83	689.58	(5,537.92)	9.04	-
NET INCpME (LOSS)	(56.35)	3,275.58	(5,801.60)	353.18	509.19
UNAPPROPRIATED RETAINED EARNINGS, BEGINNING OF YEAR	(1890.86) "	(5139.59)	829.28	743.86	450.14
Adjustment		(4.04).	-	-	-
Dividend	-	-	(156.00)	(234.01)	(156.01)
Depreciation of Revaluation Surplus of Fixed Assets	(5.16)	(4.63)	(4.63)	(4.63)	
Appropriated for Reserve Fund	-	-	-	-	(34.50)
Appropriated for Legal Reserve	-	(13.54)	(3.49)	(17.66)	(24.97)
Appropriated for General Reserve-Subsidiary Company	(4.93)	(4.64)	(3.15)	(11.46)	-
UNAPPROPRIATED RETAINED EARNINGS, END OF YEAR	(1957.30)	(1890.86)	(5139.59)	829.28	743.86
EARNINGS PER SHARE (LOSS) Baht					
Income (Loss) Before Extraordinary Items	(5.67)	49.73	(5.07)	6.62	17.39
Extraordinary Items	4.59	13.26	(106.50)	0.17	-
Net Income (Loss)	(1.08)	62.99	(111.57)	6.79	17.39

Source; *PSL Annual Reports.*

Note! Figures for 1995,1996,1997, and 1998 have been taken from the *Annual Reports* of 1996, 1997, 1998, and 1999 respectively, since they reflect revisions, if any.

Exhibit 9: PSL's Statements of Cash Flows

Million Baht

Particulars	*1999*	*1998*	*1997*	*1996*	*1995*
CASH FLOW FROM OPERATING ACTIVITIES					
NET INCOME (LOSS)	(56.35)	3,275.58	(5,801.60)	353.18	509.19
Adjustments to Reconcile Net Income (Loss) to Net Cash "rovided by Operating Activities					
Depreciation	674.05	705.20	680.42	548.69	408.72
Amortization	157.28	154.75	157.09	135.86	85.97
Jnrealized Loss (Gain) on Exchange Rate	161.55	(2,395.31)	5,471.24	98.23	30.31
Jain on Redemption of Bonds	(175.90)	(689.58)	(13.44)	(9.04)	-
lain in Sale of Investment	(25.75)	-	-	-	
jain on Disposal of Fixed Assets	(1.41)	(53.65)	37.34	(0.45)	.
Jnrealized Loss (Gain) on Investments in Marketable Securities	(1.12)	9.78	291.69	-	(45.21)
Allowance for Doubtful Accounts	24.77	60.92	2.49	-	-
Cumulative Translation Adjustment	2.44	8.41	44.95	1.14	(1.64)
INCOME (LOSS) FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	759.55	1,076.10	870.18	1127.61	987.34
Decrease (Increase) in Operating Assets					
Accounts Receivable-Trade	(47.64)	29.57	68.45	(52.21)	(83.03)
Receivables from Subsidiary and Associated Companies-Net	(50.36)	19.06	20.00	(35.86)	(3.19)
Bunker Oil	(37.22)	9.33	(18.61)	(2.21)	(24.23)
Mier Current Assets	(64.31)	12.96	1.76	(43.49)	(90.41)
Other Assets	(144.75)	(170.29)	(197.86)	(125.95)	(235.12)
ncrease (Decrease) in Operating Liabilities					
Accounts Payable	(92.48)	59.16	115.89	(21.97)	31.68
ayable to Associated Companies	-	23.17	-	.	(1.80)
Advance Received from Charterers	7.14	(20.10)	7.87	(1.69)	36.98
ncome Tax	-	-	-	-	1.67
The Current Liabilities	220.25	(149.65)	257.41	51.42	84.89
HST CASH PROVIDED BY OPERATING ACTIVITIES	550.18	889.30	1,127.75	895.63	704.79
'ASH FLOWS FROM INVESTING ACTIVITIES					
ayments for Purchase of Short-term Investments	-	-.	2,626.08	495.46	(3,121.53)
fcyments for Purchase of Marketable Securities	-	-	-	(224.10)	(228.12)
roceeds from Sales of Marketable Securities	-	-	-	-	195.96
increase in Investments in Shares of Subsidiary and associated Companies	(42.05)	(42.54)	(43.38)	(27.42)	
payments for Purchase of Fixed Assets	(10.79)	0.00	(4,139.30)	(1628.30)	-
proceeds from Sales of Fixed Assets	669.80	340.01	208.62	182.08	-
fixcess of Investment in Subsidiary over Book Value	-	-	-	(39.38)	-
increase (Decrease) in Minority Interest in Consolidated Subsidiaries	7.45	20.10	20.07	9.52	29.97
NET CASH PROVIDED BY INVESTING ACTIVITIES	624.42	296.47	(1,327.92)	(1232.14)	(5,367.29)
:ASH Flows FROM FINANCING ACTIVITIES					
increase {Decrease) in Loans from Banks and Financial Institutions	(257.58)	290.56	(654.53)	587.44	(150.61)
increase (Decrease) in Long-term Loans-Net	(7,025.20)	(1,108.74)	1,180.01	90.17	1,090.69
increase (Decrease) in Debentures and Bonds	(102.10)	(391.58)	(83.36)	(91.92)	3,642,79
increase in Share Capital	-	-	-	-	260.00
Dividend Paid	-	-	(156.00)	(234.00)	(156.00)
NET CA&H PROVIDED BY FINANCING ACTIVITIES	(1,061.88)	(1,209.77)	286.11	351.69	4,686.87
INCREASE (DECREASE) IN CASH-NET	112.72	(24.01)	83.27	15.18	24.36
CASH, BEGINNING OF YEAR	149.27	173.27	90.00	74.82	50.46
CASH, END OF YEAR	261.98	149.27	173.27	90.00	74.82

Soarce: *PSL Annual Reports.*

Figures for 1995,1996,1997, and 1998 have been taken from the *Annual Reports* of 1996, 1997, 1998, and 1999 respectively, **since they reflect** revisions, if any.

Exhibit 10: PSL's Unaudited Consolidated Balance Sheet

As on 31st December — Million USD

	1999	*1998*	*1997*
ASSETS			
CURRENT ASSETS			
Cash in Hand and at Banks	7.04	4.09	3.69
Investment in Marketable Securities	0.03	0.00	0.21
Freight/Hire Receivables-Net	3.84	3.30	4.71
Receivable from a Related Company	0.31	(0.63)	0.41
Bunker Oil	2.52	1.55	1.41
Other Current Assets	8.27	. 4.83	4.03
Ibtal Current Assets	22.00	13.15	14.45
INVESTMENT IN ASSOCIATED COMPANIES	3.78	3.22	2.19
FDOBD ASSETS AT COST			
Vessels and Equipment	331.34	331.23	340.61
Office Equipment	0.69	0.42	0.30
Barge and Equipment	2.03	2.03	2.03
Leasehold Improvement	0.11	0.11	0.05
\feMdes	0.91	0.33	0.18
Buildings and Improvements	10.35	10.86	8.44
Furniture and Fixtures	0.78	0.75	0.58
Plant Equipment	3.79	8.90	8.87
Office Buildings	0.00	0.49	0.49
Vessels Deposit	0.00	19.11	24.40
Total	350.00	374.22	385.95
Lew: Accumulated Depreciation	(112.03)	(86.46)	(68.25)
Fixed Assets-Net	237.97	287.76	317.70
OTHER ASSETS			
Unanaortized Drydock and Special Survey	5.54	5.73	8.08
Pre-Operating Expenses	0.03	0.09	0.08
Refundable Deposits	0.42	0.41	0.41
Deferred Charges-Net	0.02	0.05	0.10
lax Deducted At Source	0.03	0.28	0.20
Ibtal Other Assets	6.05	6.56	8.88
GOODWILL/COST OF CONTROL	0.85	0.92	0.75
TOTAL ASSETS	270.65	311.61	343.97
LIABILITIES			
CURRENT LIABILITIES			
Loan from Banks	0.02	7.00	0.00
Accounts Payable	5.57	8.23	5.58
Current Portion of Long-term Loan	15.06	29.28	28.14
Current Portion of Bonds and Debentures	63.56	0.00	0.00
Freight/Hire Received in Advance	1.74	1.60	1.66
Interest Payable	10.38	5.81	5.44
Other Current Liabilities	4.91	3.82	5.75
Total Current Liabilities	101.23	55.75	46.58

	1999	1998	1997
OTHER LIABILITIES			
Local Bonds	72.32	79.26	99.09
Euro Convertible Bonds	30.78	30.78	38=06
Long-term Loans	18.34	101.25	119.43
Less: Current Portion Due Within One Year	(15.06)	(29.28)	(28.14)
Long-terrn Loans - Net	106.38	182.01	228.43
MINORITY INTEREST	1.74	1.59	1.25
TOTAL LIABILITIES	209.35	239.34	276.26
SHAREHOLDERS' EQUITY			
Share Capital	20.39	20.39	20.39
Cumulative Translation Adjustment	0.00	0.00	1.74
Premium on Share Capital	36.32	36.32	36.32
Reserve Fund	2.37	2.37	2.37
Legal Reserve	3.66	3.53	3.08
Retained Earnings	(1.44)	9.66	3.81
TOTAL SHAREHOLDERS' EQUITY	61.30	72.27	67.71
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	270.65	311.61	343.97

Source: PSL Data.

Exhibit 11: PSL's Unaudited Consolidated Statements of Income

Million USD

\	1999	*1998*	1997
REVENUES			
Vessel Operating Income	95.41	97.17	103.55
Service Income	2.65	3.44	7.70
Interest Income	0.34	0.24	3.24
Gain on Exchange	0.00	0.08	0.00
Gain on Sale of Fixed Assets	0.04	1.27	(1.25)
Gain on Investment in Marketable Securities	0.68	(0.23)	(9.75)
Other Income	0.33	0.22	0.44
Total Revenues	99.46	102.19	103.94
COSTS AND EXPENSES			
Vessel Operating Costs	39.39	64.76	61.76
Vessel Mayage Costs	25.59	0.00	0.00
Cost for Service	1.12	1.73	4.00
Administrative Expenses	3.94	3.17	4.21
Depreciation	25.66	24.92	22.74
Provision for Loss on Investments in Associated Companies			
Loss on Exchange	0.04	0.00	8.81
Interest and Finance Cost	15.89	17.52	18.10
Total Costs and Expenses	111.64	112.09	119.62
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	(12.18)	(9.90)	(15.67)
Income Tax	0.14	0.08	0.05
INCOME BEFORE MINORITY INTEREST	(12.32)	(9.98)	(15.73)

Exhibit 11 Conld.

	1999	1998	1997
Minority Interest in Subsidiary Companies	0.39	(0.05)	(0.11)
INCOME BEFORE EXTRAORDINARY ITEMS	(12.71)	(9.93)	(15.62)
Gate On Debt Restructuring	1.67	0.00	0.00
Gain On Swap Termination	4.67	16.34	0.36
Gain On Baht Bonds			
NET INCOME	(6.36)	6.41	(15.26)
RETAINED EARNINGS, BEGINNING OF THE YEAR	9.66	3.81	.25,56
Cumulative Translation Adjustment-Plant Equipment	(4.47)	0.00	(6.12)
Depreciation of Revaluation Surplus of Fixed Assets	(0.14)	(0.11)	(0.15)
Legal Reserve	(0.13)	(0.45)	(0.22)
RETAINED EARNINGS, END OF THE YEAR	(1.44)	9.66	3.81
EARNINGS PER SHARE USD	(0.12)	0.12	(0.29)

Source: PSL Data.