PSL - Annual Report 2001

FINANCIAL HIGHLIGHTS AND REVIEW OF THE YEAR

In terms of operations, during the year under review, the Total Revenue of the Company was Baht 4,056.01 million [2000:Baht 4,196.09 million] and the Company incurred a Net Profit of Baht 673.32 million [2000: Net Loss Baht 366.64 million]. This included a Net Loss on Foreign Exchange of Baht 75.46 million [2000:Loss Baht 597.77 million]. The Shareholders' Equity of the Company remains positive and is Baht 474.04 million [2000:Baht 365.21 million]. The Total Assets of the Company have decreased to Baht 5,802.97 million [2000:Baht 6,691.35 million].

During the year, the Company incurred an Operating Net Profit before Exchange Loss, Income Tax and Extraordinary items of Baht 518.67 million. But for the weakness in the Freight market in the second half of the year, this figure of operating profit of 2001, would have been much higher. The Company has continued to keep a tight control over vessel operating expenses and has been successful in maintaining these at near previous year's levels. The technical downtime has also been kept well under control, which, has led to minimum loss of revenues.

As result of the improved profitability and the reduction in the interest costs during the year, the Company did not face any significant liquidity problems during the year.

The Debt Restructure exercise completed in July, 2000 gave rise to an instrument called the Redeemable Convertible Debenture (RCD), which, will be converted into equity shares of the Company after 16th January, 2003. However, before the date of conversion, the Company can redeem the RCD at varying rates of discounts on nominal value depending on the timing of the redemption. Under the terms of the Debt Restructure, funds required for exercising this call option can be sourced mainly through a fresh equity issue. Due to the depressed conditions prevailing in the capital markets of this region and particularly in Thailand, raising fresh equity at a reasonable share price has not been possible, but, efforts in this regard are in progress and we hope to report a positive result this year.

FLEET:

The Company disposed off 4 of the older vessels during the year and consequently, the fleet strength at the end of the year is at the level of 31 vessels with an aggregate capacity of 703,687 dwt. The disposal of the older vessels has enabled the Company to maintain the average age of the Company's fleet at around 15.5 years, which is near the average age of the Company's fleet as at the end of the previous year. This will allow the Company to continue to maintain efficiencies in controlling operating costs.

Fujisan Maru, the Company's partially owned cement carrier, converted in 1998, remained gainfully employed on a long-term charter during the entire year.

After the fresh equity raising exercise is successfully completed and the RCDs are redeemed, the Company shall embark upon a fleet replacement program and add more tonnage to its existing fleet with a view to maintaining our fleet tonnage at a core level of at least 800,000 dwt.

THE INDUSTRY OUTLOOK:

Ship scrapping for 2001 continued in the same vein that we left off in 2000 with a total of 154 ships being removed from our sector, resulting in a net reduction of over 4.72% in the world fleet. The highest previous reduction was in 2000 when there was a net reduction of 4.74% in the world fleet in our sector. The reason for such a strong scrapping rate has been the weakness in the freight markets. With over 53% of the world fleet in our sector being greater than 20 years of age, we expect the scrapping rate in the next few years to reflect those of the immediate past. This consistent net reduction in fleet size can only be beneficial to freight rates.

For the year 2002, the supply of new ships, especially in the Panamax and the Super Handymax sectors, is still very strong. In the Panamax sector they are expecting 64 ships or 6.2% to be delivered during 2002 with another 15 ships or 1.5% contracted for delivery in 2003. The saving grace in the Panamax sector is that 58 ships or 5.7% of the fleet is currently over 24 years of age and would likely be scrapped during 2002 thereby balancing the fresh supply. In the Super Handymax sector 103 ships or 9.5% are scheduled for delivery in 2002 with another 42 ships or 3.9% to follow in 2003. In this sector only 41 ships or 3.8% will be over 25 years of age and likely to be scrapped during 2002. As we had already indicated in our last report, this should see an adverse impact on earnings in these sectors in the first half of 2002 which might spill over into the latter part of the year should scrapping not proceed as per our expectations.

The September 11, incident helped crystallise the global economic outlook for 2001 and simply confirmed what we had known all along. The world had been in a recession since 03/2001. As a result of this harsh wake-up call, prompt and aggressive action was taken with concerted interest rate cuts by the Central Banks around the globe. By all accounts, the United States is heading for an economic recovery in the second half of 2002. Japan still continues to stumble along economically, hovering between negative and zero growth while struggling with deflation. Oil prices have weakened considerably since the highs established during 2000. Our own view, expressed in our last report that oil prices would hover between USD 20 and USD 25 per barrel for 2001, have been vindicated.

The myriad of forecasts made by the pundits in our industry seem to indicate that rates would start a recovery sometime in the latter half of 2002 strengthening as we

move into 2003. Our own view is that the latter half of 2002 will be stronger than the first half, which, will be anemic at best. If we can manage to keep our heads above water in the first half of 2002 then we would have weathered the economic storm post September 11, very well. We are much more confident about the prospects for the latter half of 2002 and for the whole of 2003.

REGULATORY INFLUENCES:

Port State Control has continued its iron-man role forcing 'best industry practice' levels in every sector. The few accidents resulting in oil staining pristine beaches has helped tighten the screws by a few more notches. The sinking of the Christopher, an elderly Caper with loss of lives, focused attention once again on the vulnerability of bulkers in stormy seas. This incident has resulted in an industry wide debate on flooding of forward hatches due to green seas being shipped on the forward portion of such ships due to their lack of effective breakwaters and a focsle deck. The debate has also brought attention on frames getting detached from the ship sides due to a combination of corrosion on the welded seams as well as by the harsh treatment meted out to such ships whilst loading and discharging heavy cargoes. We suspect that we have not seen the last of these arguments. The mating dance between the Classification societies referred to in our last report has not been consummated in the form of consolidation as yet. Instead, the infighting within IACS has resulted in public sniping in the media. This is the last thing that is needed by our industry. We can only hope that IACS puts its house into good order and takes action on the real issues that impact on the safety of ships and the prevention of pollution of the environment.

ISSUES FACING THE INDUSTRY:

- **Restructuring continued forcefully during 2001 with quite a few major deals getting sorted out. Some of the more entrenched deals have not yet been completed despite being under negotiations for over 2 years as the protagonists simply refuse to accept reality. Most of these delayed deals will result in a drastic reduction in value for all concerned except for the lawyers and the advisors.**
- **The advent of the dot.com platforms into our industry has been blunted with the majority of them folding leaving the field clear for the few to come up with a solution that understands the way our industry is regulated and does its business. If and when this move has been made, it will be welcomed by the industry and allow us to make better use of modern technology to conduct our business in a more efficient manner.**
- **In our last report we had hoped that the consolidation bug would spread to the Dry Cargo Sector that was badly in need of the same. We have had mixed success in 2001. The Capesize sector has shown the greatest promise with the merger of ABC with Zodiac with CMB hovering around in the wings. In our sector a small start has been made with NYK line bringing all their handy size ships under one roof in Tokyo. Another attempt has been made with the pool started by Wah Kwong and others in Hong Kong. We can but wish all of these nascent ventures success in the coming years.**

OUR JOINT VENTURES:

Our joint ventures have had mixed results.

- **GPBH: Geepee Bulk Handlers, Kandla, has been hard hit by the earthquake that devastated the port and the city of Gandhidham on the 26^{th} of January 2001. We are in the process of orderly closing down this company.**
- **SLPG: This project still continues to languish in the web of red tape that is the Indian Government. We are in the process of finding a potential suitor failing which we will start the process of closing down this entity.**
- **ISPL: The progress in this project, though slow, has been satisfying. This investment was supposed to form the basis of some non-cyclical earning streams in the future. However, in view of the requirement to raise funds for the redemption of the RCDs, efforts to sell this investment at a reasonable price are in progress.**

IN CONCLUSSION:

We have managed to sail through some very tough times with flying colours. This is, in no small measure, due to the very dedicated and hardworking professionals that make up the office, as well as, floating staff at PSL.