

MERCANTILE SHIPPING COMPANY PLC (PQ 148)

CIRCULAR TO SHAREHOLDERS

Dear Shareholder,

**RE: MERCANTILE EMERALD SHIPPING (PVT) LTD- VESSELS MERCS UHANA AND MERCS UVA**

The Board of Directors of Mercantile Shipping Company PLC (hereinafter the “**Board**” and the “**Company**” respectively) has decided to summon an Extraordinary General Meeting of its Shareholders to give them a further update of the situation of Mercantile Emerald Shipping (Pvt) Ltd, a fully owned subsidiary of the Company, for the purpose of passing the required resolutions in connection with the recent developments.

In view of the continuing deterioration of the charter market and the inability for Mercantile Emerald Shipping (Pvt) Ltd to make capital repayments and interest payments, the Bank has issued a notice dated 27<sup>th</sup> May 2019 informing of its decision to cease business as per **clause 26 paragraph 2 of the General Terms and Conditions of the Loan Agreement dated 08.07.2009** giving Mercantile Emerald Shipping (Pvt) Ltd an effective date of 14<sup>th</sup> June 2019 to negotiate an acceptable settlement plan for both parties. However, the period was extended to 31<sup>st</sup> August 2019 by their letter dated 14.06.2019, while the operation of the vessels were to be continued with the support of the Bank.

Mercantile Shipping Company PLC has made an investment of Rs. 237. 6 Mn in Mercantile Emerald Shipping (Pvt) Ltd which has been fully provided for write-off due to the continuous losses made and now stands at zero value in the Books.

The vessels are Mortgaged to the Bremer Landesbank which is now taken over by Norddeutsche Landesbank. As per Clause 9.2 of the Mortgage Bond they can take possession of the vessels and execute the sale of same accordingly.

As you are aware, the Company has given a Corporate Guarantee in the form of a Letter of Support, guaranteeing to make available sufficient funds in Mercantile Emerald Shipping (Pvt) Ltd to meet the repayment of the loan and interest. However, no request was made by the bank at any time and no funds were made available by the Company at any stage.

Financial Position as at 31<sup>st</sup> March 2019 of Mercantile Emerald Shipping (Pvt) Ltd is given below for your information.

- The Company losses are just over USD 1 Mn (for the year ended 31.03.2019 -unaudited) and USD 15.3 Mn (accumulated loss as at 31.03.2019 - unaudited)
- The Loan outstanding is USD 22.5 Mn (as at 31.03.2019)
- The interest outstanding is USD 1 Mn (as at 31.03.2019)
- Book value of the vessels after impairment USD 13.2 Mn (as at 31.03.2019)
- The Broker’s estimated sale value approximately USD 4.8 – 5.1 Mn per vessel (as at 09.07.2019)

The Norddeutsche Landesbank has now sent the Company a further communication agreeing to discharge Mercantile Shipping Company PLC from all liabilities under the Loan Agreement and Letters of Support under the following conditions:

**“Mercantile Shipping Company PLC as shareholder of Mercantile Emerald Shipping (Pvt) Ltd agrees irrevocably to the sale of the vessels Mercs Uva & Mercs Uhana by Mercantile Emerald Shipping (Pvt) Ltd to a buyer, at a price and under terms and conditions agreed by us” (by the Bank).**

The cancellation of the guarantee will relieve Mercantile Shipping Company PLC and its Shareholders from any hindrance of continuing as a going concern and assist in being taken off the Watch List of the Colombo Stock Exchange.

The Board of Directors of your Company has considered that the acceptance of the offer of the Bank is the best option available to the Company and its Shareholders.

It is now left for Mercantile Shipping Company PLC to agree to the abovementioned request of the Bank. The Directors believe that once the guarantee letter is cancelled, there is a strong possibility of increase in the share price of your Company due to the present value of the freehold assets of the Company.

As per Section 185:1 of the Companies Act 2007, all major transactions should be approved by a Special Resolution. Accordingly, since this transaction could be construed as a major transaction, the Board of Directors of your Company has decided to summon an Extraordinary General Meeting for the purpose and if thought fit, passing the following Special Resolution.

#### **RESOLUTION 1**

**"It is hereby resolved that Mercantile Shipping Company PLC of 108, Aluthmawatha Road, Colombo 15, agree irrevocably to the sale of the vessel Mercs Uva and Mercs Uhana by Mercantile Emerald Shipping (Pvt) Ltd to a buyer, at a price and under terms and conditions agreed by Norddeutsche Landesbank, Domshof 26, 28195 Bremen, Germany."**

In the event of the disposal of the vessels taking a longer period of time, the Major German Shareholder has considered to arrange the purchase of the total number of shares of Mercantile Emerald Shipping (Pvt) Ltd by an identified German Company namely REF Zweite Verwaltungs GmbH, Bremen, Germany for a nominal sum of USD 1/- (United States Dollar One only) to facilitate the sale of vessels.

Accordingly, the transfer of shares will be implemented only if the necessity arises and the following resolution to be passed for this purpose.

#### **RESOLUTION 2**

**"It is hereby resolved to transfer the total amount of shares of Mercantile Emerald Shipping (Pvt) Ltd held by Mercantile Shipping Company PLC to REF Zweite Verwaltungs GmbH, Anne-Conway-Str.2, 28359 Bremen, Germany for a nominal sum of USD 1/- (United States Dollar One only)."**

By order of the Board  
MERCANTILE SHIPPING COMPANY PLC  
MANAGERS & SECRETARIES (PVT) LTD



(Mrs.) C. Salgado  
Company Secretaries / Director

19<sup>th</sup> July 2019