

# **M&S** Managers & Secretaries (Private) Limited

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Company Reg. No.: PV 5625

CS:ng

September 18, 2019

Ms. Nilupa Perera  
Head of Trading  
Market Surveillance & Corporate Affairs  
Colombo Stock Exchange  
World Trade Centre  
Colombo 01

Dear Madam,

**MERCANTILE SHIPPING COMPANY PLC –PQ 148  
ENFORCEMENT ACTION ON INDEPENDENT AUDITOR'S REPORT CONTAINING AN EMPHASIS OF MATTER  
ON GOING CONCERN IN TERMS OF RULE 7.5 (d) (II)**

- We refer to captioned market announcement made on March 08, 2019 and subsequent announcements made in compliance with rule 7.5 (d) (II) (5) of the listing rules of the Colombo Stock Exchange and forward herewith the following, in compliance with rule 7.5 (d) (II) (9.b) of the Listing rules of the Colombo Stock Exchange, that the matters giving rise to the Emphasis of Matter on going concern have been resolved.
  - a) The declaration by the Board of Directors.
  - b) The independent verification from the Auditors of the Company.
  - c) Confirmation from the Audit Committee of the company.

By order of the Board  
MERCANTILE SHIPPING (COMPANY) PLC  
**MANAGERS AND SECRETARIES (PRIVATE) LIMITED**



Director/Secretaries

# MERCMARINE

GROUP OF COMPANIES

September 18, 2019

Ms. Nilupa Perera  
Head of Trading  
Market Surveillance & Corporate Affairs  
Colombo Stock Exchange  
World Trade Centre  
Colombo 01

Dear Madam,

## DECLARATION BY THE BOARD OF DIRECTORS OF MERCANTILE SHIPPING COMPANY PLC REGARDING THE RESOLUTION OF ALL MATTERS GIVING RISE TO THE EMPHASIS OF MATTER ON GOING CONCERN

We hereby confirm that the matters giving rise to the emphasis of matter on going concern reported in the Audited Financial Statements for the year ended March 31, 2018 has been resolved due to following:

Mercantile Shipping Company PLC has given a Corporate Guarantee in the form of a Letter of Support to Norddeutsche Landesbank (formerly Bremer Landesbank) Germany. This was given at the time of mortgaging the vessels to the Bank to obtaining a loan for the construction of two vessels for Mercantile Emerald Shipping (Pvt) Ltd, a fully owned subsidiary of Mercantile Shipping Company PLC. This Letter of Support is a guarantee to make available sufficient funds in Mercantile Emerald Shipping (Pvt) Ltd to meet the repayment of the loan and interest.

In view of the continued deterioration of the charter market since the inception of this project, resulting in the inability of Mercantile Emerald Shipping (Pvt) Ltd to make capital repayments and since 2018 interest payments, the German Bank has issued a notice dated 27<sup>th</sup> May 2019 informing its decision to cease business as per the Loan Agreement giving Mercantile Emerald Shipping (Pvt) Ltd an effective date of 31<sup>st</sup> August 2019 to resolve matters.

This Letter of Support/Guarantee given by Mercantile Shipping Company PLC gave rise to the going concern issue, resulting in the Emphasis of Matter being included in the Opinion of the Auditors in the Audited Financial Statements for the year ended 31.03.2018.

The Norddeutsche Landesbank has now discharged Mercantile Shipping Company PLC from all liabilities under the Loan Agreement and the Letter of Support, on the condition that Mercantile Shipping Company PLC as a 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 the Bank.

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**Mercantile Shipping Company PLC**

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Company No. PQ 148

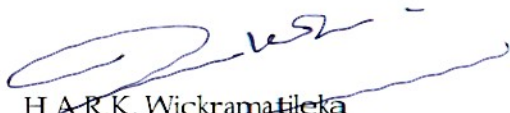
The shareholders' approval for the required resolutions for the sale of the vessels was obtained at the Extraordinary General Meeting held on 16.08.2019.

Mercantile Shipping Company PLC has received a letter of discharge from all liabilities and the original Letters of Support from the German Bank accordingly for cancellation.

In consideration of the above, the Board of Directors are confident that the Company has the ability to continue as a going concern. Any material uncertainty on the going concern of the Company has now been mitigated.

Therefore, we wish to declare that the matters giving rise to the Emphasis of Matter on going concern have been resolved.

Yours faithfully  
ON BEHALF OF THE BOARD OF DIRECTORS

  
H.A.R.K. Wickramatilleka  
Chairman

  
(Mrs) C.D.A. Peiris  
Director / Chief Financial Officer



AL/SKWD

The Board of Directors  
Mercantile Shipping Company PLC  
108, Aluth Mawatha Road  
Colombo 15

12 September 2019

**Removal of Emphasis of matter on going concern - Audited Financial Statements for the year ended 31 March 2019**

Dear Sirs

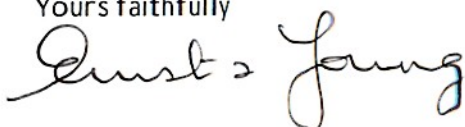
In response to the letter issued by the Colombo Stock Exchange dated 10 September 2019, requesting declaration by the auditor of the listed entity as to the resolution of all matters giving rise to the Emphasis of Matter on going concern matter for the Company and Group for the year ended 2018 we wish to state the following.

Under Sri Lanka Accounting Standard LKAS 1, when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Under Sri Lanka Auditing Standard 570 Going Concern (SLAUS 570), we, as auditors of the Company, are responsible to conclude on the appropriateness of management's use of going concern assumption in the preparation of the financial statements.

Having performed required audit procedures and considering the adequacy of disclosures made in the financial statements for the year ended 31 March 2019 in notes to the financial statements, 2.4 - Going Concern, 18 - Discontinued Operations and 25 - Events Occurring after the Reporting Date, we as statutory auditors of Mercantile Shipping Company PLC for the year ended 31 March 2019 have concluded that management's assessment of entity's ability to continue as a going concern is appropriate as duly reflected in the audit opinion dated 3 September 2019.

Please do not hesitate to contact us should you require further information or clarification on this regard.

Yours faithfully



## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

#### 1.1 General

Mercantile Shipping Company PLC ("the Company") is a Public Limited Liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office and the principal place of business are located at No. 108, Aluthmawatha Road, Colombo 15.

The Consolidated Financial Statements of Mercantile Shipping Company PLC for the year ended 31 March 2019 comprises of the Company and its subsidiaries, Mercantile Global Shipping Limited and Mercantile Emerald Shipping (Private) Limited (together "the Group").

#### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Group were as follows:

##### Mercantile Shipping Company PLC

During the year, the principal activities of the Company were carrying out investment activities and management services to its subsidiaries which are in the shipping industry. The Company also carried out renting of investment properties during the year.

##### Mercantile Emerald Shipping (Private) Limited

This subsidiary company is principally engaged in owning and chartering of two ocean going vessels namely "Mercs Uva" and "Mercs Uhana". The vessels are mortgaged to the Bremer Landesbank (Currently merged with Norddeutsche Landesbank). As of 2 August, 2019, the Company signed sales contracts with prospective buyers to sell the two vessels for a consideration of EUR 4,500,000 each as stated in note 2.4.

##### Mercantile Global Shipping Limited

This company is not in operations and awaiting tax clearance for closure.

#### 1.3 Date of Authorization for Issue

The Financial Statements of Mercantile Shipping Company PLC for the year ended 31 March 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 13 August 2019.

### 2. GENERAL POLICIES

#### 2.1 Statement of Compliance

The Financial Statements which comprise of the Group and Company Statements of Financial Position, Group

and Company Statements of Profit or Loss and other Comprehensive Income, Group and Company Statements of Changes in Equity, Group and Company Statements of Cash Flows together with accounting policies and notes have been prepared in accordance with the Sri Lanka Accounting Standards ("SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

#### 2.2 Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for assets held for sale that have been measured at fair value.

#### 2.3 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees which is the Company's functional and presentation currency, except when otherwise indicated. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### 2.4 Going Concern

The Financial Statements have been prepared on a going concern basis taking into consideration of the financial statements of the Mercantile Shipping Company PLC other than the financial statements of Mercantile Emerald Shipping (Private) Limited and Mercantile Global Shipping Limited.

As disclosed in Note 18, operations of Mercantile Emerald Shipping (Private) Limited have been classified as discontinued operations and related assets and liabilities are considered as held for sale. The two vessels owned by Mercantile Emerald Shipping (Private) Limited are due to be sold within foreseeable future for a consideration of EUR 4.5Mn each Mn (approximately Rs 1,779 Mn in total) and proceeds to be used to settle the mortgage loan, overdraft and related interest owed to Bremer Landesbank - Germany (Currently merged with Norddeutsche Landesbank) amounting to Rs. 4,745Mn. Once these vessels are sold, Mercantile Emerald Shipping (Private) Limited will not have sufficient resources to discharge its remaining obligations. Therefore, the board of directors of Mercantile Emerald Shipping (Private) Limited intends to liquidate that company in the impending future and hence the financial statements Mercantile Emerald Shipping have been prepared on a basis other than as a going concern.

Mercantile Shipping Company PLC, as the Parent Company had given a corporate guarantee to Bremer Landesbank, in the form of a letter of support guaranteeing to make

## Notes to the Financial Statements (Contd...)

available sufficient funds in Mercantile Emerald Shipping (Private) Limited to meet the repayment of the mortgage loan, overdraft and interest owed by Mercantile Emerald Shipping (Private) Limited to Bremer Landesbank. Since the two vessels are now due to be sold, the Bank has informed in writing Mercantile Shipping Company PLC has been fully and finally discharged from all liabilities under the loan agreement and related letters of support dated February 05, 2008.

The Board of Directors of the Parent Company are of the view that the cancellation of the guarantee will relieve Mercantile Shipping Company PLC and its Shareholders from any hindrance of continuing as a going concern due to Mercantile Emerald Shipping (Private) Ltd. The Parent Company has sufficient financial resources and means of business. The Board of Directors is committed to the continuance of the Company and do not intend either to liquidate or to cease trading in the foreseeable future. Accordingly, the financial statements are prepared and presented on a going concern basis.

### 2.5 Comparative information

Presentation and classification of the financial statements of the previous year have been amended where relevant for better presentation and to be comparable with those of current year. On 1 April 2018 the Group has adopted SLFRS 9 and SLFRS 15. The Group has not restated the comparative information for 2018 due to the adoption of such standards. Therefore, the comparative information for 2018 is reported under LKAS 39 and LKAS 18 which is not comparable to the information presented for 2019. Information on the adoption of SLFRS 9 and SLFRS 15 are disclosed in note 2.5.1.

### 2.5.1 Changes in Accounting Policies

#### 2.5.1.1 New and amended standards and interpretations

The Group applied SLFRS 9 and SLFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018/2019, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### 2.5.1.2 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts

with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

SLFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted SLFRS 15 using the modified retrospective method of adoption. Based on the assessment performed, the Group concluded that SLFRS 15 does not have a material impact on the Group's Financial Statements.

### 2.5.1.3 SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied SLFRS 9 retrospectively, with the initial application date of 1 April 2018.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment requirements). Accordingly, the comparative information for each of the primary financial statements would follow the classification and measurement requirements of LKAS 39.

The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

#### (a) Classification and measurement

Under SLFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets, and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 April 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 April 2018. The assessment of

## Notes to the Financial Statements (Contd...)

## 18. DISCONTINUED OPERATIONS

Mercantile Emerald Shipping (Private) Limited had its two vessels mortgaged to Norddeutsche Landesbank. As per clause 9.2 of the mortgage bond, the Bank can take possession of the two vessels and execute the sale of the same accordingly. As at the reporting date, Mercantile Emerald Shipping (Private) Limited has defaulted payment of capital, interest and overdraft to the bank amounted to Rs. 4,745 Mn. In order to settle the defaulted amount, the management was committed to a sales plan of the two vessels and the sale was highly probable at the year end. As shareholders irrevocably agreed the plan to sell the two vessels on 16 August 2019, Mercantile Emerald Shipping (Private) Limited signed the sales contract with prospective buyers agreeing to sell the two vessels at a consideration of Eur 4.5 Mn each (approximately Rs. 1,779 Mn in total). The actions to complete the sale was initiated and expected to be completed within one year. Therefore, the two vessels and related assets and liabilities have been classified as assets held for sale at the year end and operations were considered as discontinuing. The business of Mercantile Emerald Shipping (Private) Limited represented the entirety of the Group's vessel operating segment and is no longer presented in the segment note. The Results of Mercantile Emerald Shipping (Pvt) Ltd for the year are presented below.

|                                            | 2019<br>Rs.   | 2018<br>Rs.   |
|--------------------------------------------|---------------|---------------|
| Revenue                                    | 551,453,945   | 397,407,964   |
| Cost of Sales                              | (542,491,484) | (562,436,005) |
| Gross Profit/(Loss)                        | 8,962,461     | (165,028,041) |
| Other Income                               | 34,005,326    | 25,859,620    |
| Administrative Expenses                    | (569,970,053) | (26,964,972)  |
| Finance Cost                               | (262,982,201) | (164,894,912) |
| Loss before Tax                            | (789,984,467) | (331,025,305) |
| Current Year Income Tax (Expense)/Reversal | -             | -             |
| Loss for the year                          | (789,984,467) | (331,025,305) |

The major classes of assets and liabilities of Mercantile Emerald Shipping (Private) Ltd classified as held for sale as at 31st March 2019 are, as follows.

|                                                    | 2019<br>Rs.     |
|----------------------------------------------------|-----------------|
| <b>Assets</b>                                      |                 |
| Property, Plant and Equipment                      | 1,733,922,875   |
| Inventories                                        | 3,071,327       |
| Trade and Other Receivables                        | 11,303,858      |
| Cash and Cash Equivalents                          | 8,806,485       |
| Assets Held for Sale                               | 1,757,104,546   |
| <b>Liabilities</b>                                 |                 |
| Other Payables                                     | 5,617,756       |
| Interest Bearing Loans and Borrowings              | 4,744,927,745   |
| Retirement Benefit Liability                       | 790,842         |
|                                                    | 4,751,336,343   |
| Net assets directly associated with disposal group | (2,994,231,797) |

The net loss recognized on measurement to fair value less cost to sell of the two vessels is Rs. 591,380,359 (USD 3,358,383)

The net cash flows incurred by Mercantile Emerald Shipping (Private) Ltd are, as follows:

|                                                                        | 2019<br>Rs.  | 2018<br>Rs.   |
|------------------------------------------------------------------------|--------------|---------------|
| Operating                                                              | 22,838,019   | (225,421,418) |
| Investing                                                              | -            | (121,452,002) |
| Financing                                                              | -            | -             |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents           | (66,349,467) | (7,518,518)   |
| Net cash (outflow)/inflow                                              | (43,511,448) | (354,391,937) |
| Earnings per share                                                     |              |               |
| Basic/Diluted, profit/(loss) for the year from discontinued operations | (277.68)     | (116.35)      |

## 19. STATED CAPITAL

## Fully Paid Ordinary Shares

|                | 2019<br>Number | 2019<br>Rs. | 2018<br>Number | 2018<br>Rs. |
|----------------|----------------|-------------|----------------|-------------|
| As at 1 April  | 2,844,990      | 37,262,606  | 2,844,990      | 37,262,606  |
| As at 31 March | 2,844,990      | 37,262,606  | 2,844,990      | 37,262,606  |

## Notes to the Financial Statements (Contd...)

### 23. COMMITMENTS AND CONTINGENCIES

#### Group/Company

#### 23.1 Capital Expenditure Commitments

The Company/Group does not have any significant capital commitments as at the reporting date.

#### 23.2 Contingent Liabilities

Further to the revoking of the corporate guarantee as stated in note 25, the Company/Group does not have significant contingent liabilities as at the reporting date except below.

As per the clause 6 (iii) of the signed sales contracts with the prospective buyers, the cost of repairs at the point of inspection is not known as at the reporting date.

### 24. ASSETS PLEDGED

| Group<br>Nature of Assets                               | Nature of Liability                        | Company                                          | As at<br>31.03.2019<br>Rs.<br>(Carrying Value) | As at<br>31.03.2018<br>Rs.<br>(Carrying Value) | Included<br>under                  |
|---------------------------------------------------------|--------------------------------------------|--------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------|
| Vessels                                                 | Term Loan – Bremer<br>Landes Bank, Germany | Mercantile Emerald<br>Shipping (Private) Limited | 1,733,922,875                                  | 2,047,785,104                                  | Property Plant<br>and<br>Equipment |
| Building at No.108,<br>Aluthmawatha<br>Road, Colombo 15 | Term Loan-Commercial<br>Bank of Ceylon PLC | Mercantile Shipping<br>Company PLC               | 332,772,889                                    | 35,543,847                                     | Investment<br>Property             |
| Company<br>Nature of Assets                             | Nature of Liability                        | Company                                          | As at<br>31.03.2019<br>Rs.                     | As at<br>31.03.2018<br>Rs.                     |                                    |
| Building at No.108,<br>Aluthmawatha Road,<br>Colombo 15 | Term Loan-Commercial<br>Bank of Ceylon PLC | Mercantile Shipping<br>Company PLC               | 332,772,889                                    | 35,543,847                                     | Investment<br>Property             |

### 25. EVENTS OCCURRING AFTER THE REPORTING DATE

#### Group/Company

There have been no material events occurring after the reporting date that require adjustments to or disclosure in these Financial Statements except the matters noted below.

Shareholders of Mercantile Emerald Shipping (Pvt) Ltd approved the sale of the vessels Merca Uva and Merca Uhana by Mercantile Emerald Shipping (Pvt) Ltd to a Buyer, at a price and under terms and conditions agreed by Norddeutsche Landesbank on 16 August 2019. Accordingly, the Company has entered into sales contracts with prospective buyers to sell the two vessels for a consideration of EUR 4.5Mn each.

Subsequent to the shareholder approval as stated above, Bremer LandesBank has revoked the corporate guarantee and Mercantile Shipping Company PLC has been fully and finally discharged from all liabilities under the loan agreement and letters of support dated 5th February 2008.

# MERCMARINE

GROUP OF COMPANIES

September 18, 2019

Ms. Nilupa Perera  
Head of Trading  
Market Surveillance & Corporate Affairs  
Colombo Stock Exchange  
World Trade Centre  
Colombo 01

Dear Madam

## MERCANTILE SHIPPING COMPANY PLC -PQ 148 AUDIT COMMITTEE CONFIRMATION ON RESOLUTION OF EMPHASIS OF MATTER ON GOING CONCERN

We hereby confirm that the matters giving rise to the emphasis of matter on going concern reported in the Audited Financial Statements for the year ended March 31, 2018 has been resolved due to following:

Mercantile Shipping Company PLC has given a Corporate Guarantee in the form of a Letter of Support to Norddeutsche Landesbank (formerly Bremer Landesbank) Germany. This was given at the time of mortgaging the vessels to the Bank to obtaining a loan for the construction of two vessels for Mercantile Emerald Shipping (Pvt) Ltd, a fully owned subsidiary of Mercantile Shipping Company PLC. This Letter of Support is a guarantee to make available sufficient funds in Mercantile Emerald Shipping (Pvt) Ltd to meet the repayment of the loan and interest.

In view of the continued deterioration of the charter market since the inception of this project, resulting in the inability of Mercantile Emerald Shipping (Pvt) Ltd to make capital repayments and since 2018 interest payments, the German Bank has issued a notice dated 27<sup>th</sup> May 2019 informing its decision to cease business as per the Loan Agreement giving Mercantile Emerald Shipping (Pvt) Ltd an effective date of 31<sup>st</sup> August 2019 to resolve matters.

This Letter of Support/Guarantee given by Mercantile Shipping Company PLC gave rise to the going concern issue, resulting in the Emphasis of Matter being included in the Opinion of the Auditors in the Audited Financial Statements for the year ended 31.03.2018.

The Norddeutsche Landesbank has now discharged Mercantile Shipping Company PLC from all liabilities under the Loan Agreement and the Letters of Support on the condition that Mercantile Shipping Company PLC as a shareholder of Mercantile Emerald Shipping (Pvt) Ltd agrees irrevocably to the sale of the vessels Merca Uva & Merca Umana by Mercantile Emerald Shipping (Pvt) Ltd to a buyer, at a price and under terms and conditions agreed by the Bank.

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www.mercmarine.net

Company No. PQ 148

Accordingly, an Extraordinary General Meeting was summoned on 16.08.2019 for passing the required resolutions.

Mercantile Shipping Company PLC has received a letter of discharge from all liabilities and the original Letters of Support from the German Bank accordingly for cancellation.

In consideration of the above, the Board of Directors are confident that the Company has the ability to continue as a going concern. Any material uncertainty on the going concern of the Company has now been mitigated.

Therefore, we wish to confirm that the matters giving rise to the Emphasis of Matter on going concern have been resolved.

Yours faithfully

ON BEHALF OF THE BOARD AUDIT COMMITTEE OF MSCPLC

*P. A. Nandasena*

P.A. Nandasena

Chairman Audit Committee

