



Ceylon Shipping Corporation Ltd

***(Converted to a Company under the Conversion of Public Corporation or
Government Owned Business Undertakings into
Public Companies Act. No.23 of 1987 from 01.06.1992)***

Annual Report 2019/2020



National Carrier of Sri Lanka

Ceylon Shipping Corporation Ltd.
Annual Report & Accounts of
2019/2020

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**Ceylon Shipping Corporation Ltd.
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Vision & Mission Statement

Vision

To develop a dependable and effective
National Fleet of Ships for the country.

Mission

To cater to the sea transportation needs of the export, import and local
costal trades of Sri Lanka that needs assistance from the National Carrier.

**Ceylon Shipping Corporation Ltd.
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Letter of Transmittal

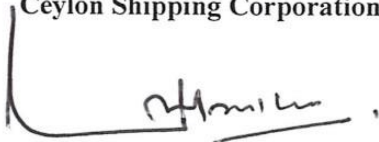
Hon. Minister Ports, Shipping and Aviation
Ministry of Ports, Shipping and Aviation
No.19, Chaithya Road
Colombo 01.

Dear Sir,

In accordance with the provisions of the conversion of Public Corporations and Government Owned Business Undertakings into Public Companies, Act. No. 23 of 1987 and the Companies Act. No. 07 of 2007, I am pleased to present the Annual Report and Financial Statements, in respect of the activities of the company for the period of 01.04.2019 to 31.03.2020.

Yours faithfully,

Ceylon Shipping Corporation Ltd



W.S. Weeraman

CHAIRMAN

Ceylon Shipping Corporation Ltd
No. 27, MICH Building
Sir Razik Fareed Mawatha
Colombo 01.

Date: 08.04.2022

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Board of Directors

From - 01.04.2019 to 31.03.2020

Admiral (Retd.) Daya Sandagiri, RSP, VCV, USP, rcds(UK),
MSc(DS), psc, FCMI(UK)
Chairman
From 04/04/2019 to 01/12/2019

W.S. Weeraman .Esq.
Chairman
From 20/12/2019 to date

D.I.S. Abeywardene .Esq.
Director
From 21/02/2019 to 25/04/2019
Executive Director
From 26/04/2019 to 21/11/2019

W.G. Amila Indika .Esq.
Director
From 21/02/2019 to 13/01/2020

Roger Srivasan .Esq.
Director
From 27/03/2019 to 05/12/2019

Dr.I.D.M. Rathnayake
Director
From 20/12/2019 to date

Dr.G.A.J. Sanjeewa Bandara
Director
From 20/12/2019 to date

J.M. Jayathilaka
Director
From 20/12/2019 to date

D.H.S Pullaperuma(Mrs.)
Director
From 11/01/2020 to date

P.N.G. Darshana
Director
From 30/12/2019 to date

Company Secretary

Mrs. Malkanthi Gunasekara (Since 14th November 2017)
Associate Member of the Institute of Chartered Corporate Secretaries (ACCS)
Postgraduate Diploma in Labour Relation and Human Resource Management
University of Colombo

Secretary to the Board

P. Samaranayake. Esq.
Attorney-At Law
B.Sc (Special)

Bankers

People's Bank Corporate Banking Division
Bank of Ceylon
Commercial Bank of Ceylon PLC

Auditors

The Auditor General, The National Audit Office, No.306/72, Polduwa Road, Battaramulla.

Board Meetings

Ten (10) Board Meetings were held during the year under review.

Registered Office

Ceylon Shipping Corporation Ltd.
No. 27, MICH Building,
Sir Razik Fareed Mawatha,
Colombo 01,
Sri Lanka.
Tel : +94 11 2328772/3
Fax : +94 11 2449486
E-mail : cscl@cscl.lk
Web : www.cscl.lk

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Management Team

General Manager

S.M.D.N. Dharmapriya . Esq.
B.Sc. MSc. in Maritime Studies UK,
MILT - UK
(Retired on 19/11/2019)

Deputy General Manager (Commercial)

Acting General Manager w.e.f. 9th October 2020

Mrs. C. Jayasinghe
FICS, MILT – UK, M.Sc. in International Shipping -UK
Diploma in Shipping (OSLO)

Acting Deputy General Manager (Legal & Insurance / Human Resources)

P. Samaranyake. Esq.
Attorney-At Law
B. Sc. (Special)

Assistant General Manager (Finance)

G.M. Vikum Pradeepa .Esq.
B.Com. (Special) Hons., LICA
M.Sc. in Shipping Management (Malmo-Sweden)

Assistant General Manager (Business Development)

Mrs. Y. S. Wettasinghe
B.Sc. (General)
MSc in Shipping –WMU, (Malmo Sweden)

Designated Person Ashore

Capt. Nish Wijayakulathilaka
Master Mariner, MBA(Col), CMILT, AFNI(UK)
IMO Maritime Ambassador, Member UNA

Technical Superintendent

Leel Senevirathne. Esq.
Class 1 Marine Engineering Officer
ISM and ISPS Internal Auditor
Member of Institute of Marine Engineers Science & Technology (IMAREST) UK
Member of Chief Engineer's Association (SOCEN) SL
Member of Organization of Professional Associations (OPA) SL

Internal Auditor

Y. Ponnamparuma.Esq.

LICA, FMAAT,

Post Graduate Diploma in Shipping Management (OSLO)

Manager (Finance)

W.A.D.Sarath .Esq.

Higher National Diploma in Accountancy, LICA

Postgraduate Diploma in Port Shipping and Transport Management (OSLO)

(Retired on 03/03/2020)

Manager Chartering & Agency

I. Danthanarayane.Esq.

B.Sc. Public Management (Special) Hons.

M.Sc. in Maritime Affairs, (Malmo- Sweden)

MILT – UK ,LICA

Manager (Documentation)

K.L.M.Maduraja.Esq.

B.Com. (Special) Hons.

MSc in Shipping –WMU, (Malmo Sweden)

Manager (Liner, Logistics, NVOCC)

N.P.Kalpage.Esq.

B.A. (Special)

MSc in Shipping –WMU, (Malmo Sweden)

Actg.Manager (Human Resources)

Mrs. Malkanthi Gunasekara

Associate Member of Institute of Chartered Corporate Secretaries (ACCS)

Postgraduate Diploma in Labour Relations and Human Resource Management

University of Colombo

Head of Administration

H.R.L.P.P. Gunaratne Esq.

Diploma in Management – Open University

Diploma in Business Information

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Chairman's Review

Along with our entire Board of Directors I am pleased to present the Annual Report and Audited Financial Statements of Ceylon Shipping Corporation Ltd, the National Sea Carrier of Sri Lanka for the year ended 31st March 2020.

During the year we were faced with some challenges, but effectively managed them with exemplary dexterity.

CSC has been successfully continuing its ongoing business activities in vessel operation as a Ship Owner, operator, Charterer, Non-Vessel Operating Common Carrier, Agent and Total Logistics Provider.

Dry Bulk Shipping Market

The Baltic Dry Index benchmark for dry freight market has been an upward trend since the start of 2016. The time charter market for dry bulk carriers have similarly improved. In the financial year 2019/20 charter hire rate enjoyed by our two vessels was significantly increased.

Deployment of Ships

During the South West Monsoon period from April to mid-September 2019 CSC two owned vessels M.V. Ceylon Breeze and M.V. Ceylon Princess were successfully employed in the International Charter Market under commercial management company based in Singapore and recorded the maximum vessel utilisation during the financial year 2019/20.

During the non-monsoon period these vessels were engaged in coal transportation between RBCT, South Africa and Puttalam Thermal Power Plant consigned to Ceylon Electricity Board.

Government Sector Imports

During the financial year 2019/20 CSC was engaged in transportation of Government sector cargo using its mandate to carry Government sector import under the Public Finance Circular No. 415. Accordingly CSC handled General Cargoes such as containerized cargo, vehicles, break-bulk cargoes and heavy- lift cargoes on third party ships on space charter and voyage charter basis from all over the world.

Financial Performance

CSC had a satisfactory growth with an operational profit before impairment of Assets Rs. 1.11Bn 2019/20 compared to Rs. 993.27Mn in 2018/19 by the increase of 12%. However due to the amount of impairment of Assets i.e. Rs. 268.32Mn in 2019/20, the Profit from Operations has been decreased by 2% amounting to Rs. 845.06Mn compared to Rs. 859.97Mn in 2018/19. The loss after Tax and financial expenses of the loan (including the exchange loss) in 2019/20 was Rs. 1.08Bn compared to the amount of Rs. 1.52Bn in 2018/19.

During the year 2019/20, CSC was able to achieve the total revenue of Rs. 3,849.35Mn. When compared with previous Financial Year, it had been increased by 26% on year-on-year basis. Direct Operational Expenses was increased by 27% from Rs. 2,075.87 Mn to Rs. 2,636.98Mn and Gross Profit increased by 24% from Rs. 977.27Mn to Rs. 1,212.37Mn.

Revenue in CSC vessel operation

It had been noted that in 2019/20 approx. (31 %) of revenue decrease was recorded comparing to the last financial year 2018/19 from the employment of two vessels under commercial management in the six months of South West Monsoon period. This is mostly due to the Global Pandemic situation and the drop of Dry bulk Charter Market.

On the other hand, freight income from transportation of coal by the owned two vessels was increased by 40% from Rs. 1,165.40Mn to Rs. 1,638.80Mn in 2019/20.

The quantity of coal 0.611 million MT out of the annual quantity of 2.25 million MT consigned to LCC/CEB was carried by our owned vessels and earned freight revenue of Rs. 1,638.80 Mn in the financial year 2019/20.

The income generated from agency commission and address commission from coal operation on third party vessels and lightering operation was slightly increased from Rs.484.76Mn in 2018/2019 to Rs.542.52Mn in 2019/2020.

Non-Vessel Operating Common Carrier (NVOCC) service

The income generated from Non-Vessel Operating Common Carrier (NVOCC) basis has increased from Rs. 504.66Mn in 2018/19 to Rs. 1,055.88Mn in 2019/20 due to the handling of special cargo shipment from Sri Lanka Railways. The revenue increase of this service was 109% approximately.

Currency depreciation

The depreciation of Sri Lankan Rupee against the United States Dollar affected the company adversely. In 2019/20 the exchange rate was increased by 4% approximately but compared to

the previous year. When it was compared with the year of the loan borrowed from the People's Bank for the vessels building in 2015/2016 the exchange rate had been increased by 28% in 2019/2020. This had directly affected to increase the exchange loss of vessels loans amounting to Rs. 1.0 bn which is a mandatory provision in the annual accounts in accordance with the Sri Lanka Accounting Standards.

However, CSC was able to settle full amount of the interest instalment of the vessel loan amounting to Rs. 942,422,392 in 2019/20.

Further due to the significant Exchange loss and Loan interest payment, it was recorded an annual loss of Rs. 1,154,469,108. This has drastically affected to the Net worth of the company.

Employees

The total number of the employees of the company was 116 in 2019/20. Salaries and other related expenses was Rs. 160,877,023. It has been increased by 8% compared to the year 2018/19. Administration expenses were Rs. 216,649,745 in 2019/2020 and it was decreased by 2% compared to the 2018/19.

Welfare Activities

Welfare & Recreation Association continued its activities with the assistance of the Management and the staff members of CSC.

Words of Appreciation

I would like thank the management team, staff, business partners and customers for their support that was enabled us to come this far. Also I would like to extend my gratitude to my fellow directors for their contribution to the company.

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Annual Report of the Board of Directors
On the Affairs of the Company

The Directors of CSC are pleased to submit their report together with the Audited Accounts of the Company, for the year ended 31st March 2020, to be presented at its Annual General Meeting.

Review of the Year

Company's affairs during the current Financial Year and up to the date of this report including the challenges ahead are described in the Chairman's Review on page 08 to 10. This report together with the audited Financial Statement reflects the state of the affairs of the Company.

Principal Activities / Core Businesses

The main activities of the Company are the businesses of sea transportation of cargo, door-delivery and pickup of cargo, international moving of household goods and personal effects of Sri Lankan diplomatic staffs, Customs' House agency activities, shipping agency services, ship owners, managers and operators, charterers etc.

CSC is engaged in transport of all the types of cargo such as in the form of containerized, break-bulk, bulk (coal), vehicles, project cargo, heavy cargo etc.

Financial Statements

The Financial Statements are given on pages 32 to 63 in this Annual Report prepared in compliance with the requirements of Section 151 of the Companies Act No. 7 of 2007.

Independent Auditor's Report

The Auditor's Report on the Financial Statements is given on page 22 to 31 of this report.

Accounting Policies and Explanatory Notes

There were no changes in Accounting Policies adopted by the Company during the Financial Year under review. The Accounting Policies and explanatory Notes adopted in preparation of the Financial Statements are given on pages 36 to 63.

Financial Results/Profit and Appropriations

The Statement of Comprehensive Income is set out on page 32

Property, Plant & Equipment

During the year under review the Company invests Rs.6.184 million in property, plant & equipment.

Note 10 to the Financial Statements provides information relating to movement in Property, Plant & Equipment during the year.

Investments

Notes 13, 14, 15 and 16 to the Financial Statement on page 50 to 52 declare the details of long term investments held by the Company as of 31st March 2019.

Dividend

The Directors do not recommend payment of a dividend for the financial year ended 31st March 2020.

Stated Capital

As per the terms of the Companies Act No. 7 of 2007, the stated capital of the Company is Rs. 50,000,000 as at 31st March 2019. The details are given in Note 23 to the Financial Statement on page 55

Going Concern

The Directors have reviewed the Company's business plans and are satisfied that the Company has adequate resources to continue as a going concern for the foreseeable future.

As such, the Financial Statement is prepared on that basis.

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Sustainability Report

The shipping industry is a fundamental pillar of the global economy. Transportation by sea is a cost-effective and fuel-efficient way to move goods and raw materials in large scale around the world. Specifically, approximately 90% of global trade is carried by the international shipping industry while accounting for less than 3% of global CO₂ emissions. Maritime activity also plays a key role in alleviating extreme poverty and hunger while providing a large source of income and employment for many developing countries creating jobs globally. Raw materials, such as iron ore (integral in the steelmaking process) and grain, are building blocks for daily life. In terms of overall seaborne trade, dry bulk trade represents nearly half of total seaborne trade volume.

Ceylon Shipping Corporation (CSC) being the National Sea Carrier of Sri Lanka recognizes the importance of operating a safe and responsible business, built for the long-term. We integrate Environmental, Social and Governance considerations into our operational and strategic decision making. As such, we aim to meet and, where appropriate, exceed rules and regulations governing the maritime industry.

As a fully owned Government Company, CSC is one of the key contributors in achieving Sustainable Development Goals and wish to continue its Sustainability Reporting to be included in the Annual Report 2019/2020.

Sustainable Development Goals In 2015, the United Nations Member States adopted 17 Sustainable Development Goals ("SDGs") which aim to create a more sustainable future for the world and its inhabitants. The goals address a number of important global challenges, including poverty, inequality, climate change, environmental degradation, peace, and justice.

Environmental Sustainability

CSCL strongly committed to operating the vessels safely, minimizing our environmental impact, and complying with all applicable laws and regulations. Our vessels operate globally, and our key environmental focus areas include emissions reduction, ballast water management and spill prevention.

Our industry's regulatory environment is becoming exponentially complex and includes regulations of the United States of America, the European Union the United Nations'

International Maritime Organization and others. In the foreseeable future, we expect the trend of increasing regulatory compliance complexity to continue.

CSCL vessels have been designed, built and operated in compliance with all such emission regulations and standards implemented globally through shipping administrations. We recognize our responsibility to safeguard the environment and give great prominence to improving our environmental performance.

Same has been achieved using the following strategies and control measures.

- Ensuring that all vessels under our management comply with all environmental regulations.
- Effective implementation of the SEEMP (Ship Energy Efficiency Management Plan) is ensured through various mechanisms of verifications both on board and by office.
- Taking all the necessary steps to comply with the 2020 fuel regulations through timely planning and implementation of the Shipboard Implementation Plan (SIP)
- By maintaining all the MARPOL related equipment in optimum condition through timely maintenance and supply of necessary spares etc.
- By maintaining all the required record keeping according to the National and international requirements and verified by the office.

The IMO 2020 regulation mandated that from January 1st 2020, the global upper limit on the sulfur content of ship's fuel oil is capped at 0.5%. In certain sulfur Emission Control Areas, this limit is further reduced to 0.1%. There are two ways to comply with the new regulations, either by using compliant fuel with 0.5% Sulphur content or by installing an Exhaust Gas Cleaning System (EGCS). CSCL has chosen the method of using compliant fuel in order to comply with the regulations and same has been implemented through SIP (Shipboard Implementation Plan) and achieved with very smooth transition.

We have achieved full compliance with the IMO DCS and the EU MRV regulations. We monitor our consumption emission footprint through a standardized, strict and structured process to ensure consistency and accuracy in our reporting.

Accidental spills or discharges can cause significant ecological harm. Harmful spills may require extensive recovery efforts, causing reputational damage as well as economic penalties. We recorded no harmful spills or discharges to air in 2020.

CSCL fleet is equipped with ballast water treatment systems and is subject to regular hull inspections to establish if underwater hull cleaning is required. First class anti fouling hull treatment systems are applied to ensure low risk of developing hull growth during a standard 60-month dry-dock interval.

Social Sustainability

The unprecedented impacts of Covid-19 have demonstrated the importance and value of a resilient, diverse and unified workforce. Our number one priority throughout the ongoing pandemic is keeping our people safe and healthy, while adapting to the challenging conditions that it presents. Providing good working conditions, respecting relevant labor and human rights are embedded in our approach to creating social capital. Through our constant efforts to date we have continued to maintain our high retention rates and are building a strong foundation for future growth.

Working on-board involves intense physical labor, sometimes under extreme weather conditions, limited recreational activities and living in confined space. The latter became much more intense during the COVID-19 pandemic. At the same time, seafarers are the backbone of proper and safe operation and maintenance of our ships. We are devoted to supporting the physical and mental well-being of our seafarers. To this end, we have equipped our vessels with Wi-Fi connection, gym equipment and other recreational facilities.

We are an equal opportunity employer, with all qualified applicants receiving consideration for employment without regard to race, colour, religion, sex, sexual orientation, gender identity, national origin, ethnicity, disability or status. We will not tolerate discrimination or harassment. We focus on creating favorable employment conditions which in turn lead to the attraction and retention of productive employees.

The operation of our vessels is constantly monitored and supported by an on-shore team of skillful employees. We remain devoted to creating and maintaining a positive working environment of equal opportunities where our employees can perform to the best of their abilities and grow.

According to the IMO, there is ample evidence that investing in women is the most effective way to lift communities, companies, and even countries. Countries with more gender equality have better economic growth. Within this historically male dominated industry, IMO has been making a concerted effort to help the industry move forward and support women to achieve a representation that is in keeping with twenty-first century expectations.

In close collaboration with the all leading maritime colleges in the country CSCL encourage and support the above mentioned future plans of the IMO at global scale. Gender equality is ensured not only in our office but also on board our vessels.

Economic Sustainability

Our main strategy of ensuring the Economic sustainability is through securing the on board Quality, Health, Safety and Environment management through effective implementation of the ISM (International Safety Management System).

We believe that strong corporate governance is part of every successful organization and are fully committed at keeping the highest standards in place.

We have an independent Internal Audit in house department which reviews the Company's processes and internal controls and provides appropriate recommendations.

We are committed to high standards of ethical, moral and legal business conduct. Our Code of Ethics clearly sets out our expectations regarding conduct and the ethical standards we adhere to. During onboarding we provide our people with an induction to our Code of Conduct and Ethics, supported by ongoing training.

AUDIT COMMITTEE REPORT

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is appointed by the Board of Directors of the **Ceylon Shipping Corporation** (CSC) and reports directly to the Board. The Audit Committee of CSC consisted of three Independent Non-Executive Directors during the financial year:

Mr. A.K. Senevirathne - Chairman (up to 11/06/2019)

Mr. W.G.A. Indika - Chairman (From 11/06/2019)

Mr. Purna Perera - Member

Mr. R. Srivasan - Member

ROLE OF THE AUDIT COMMITTEE

The Audit Committee is empowered to examine all matters pertaining to the financial affairs of the Company and assists the Board of Directors in effectively discharging their duties. The Audit Committee examines the preparation, presentation and adequacy of disclosure with the Sri Lanka Accounting Standards (SLFRS/LKAS) and whether the financial reporting requirements are in accordance with the Companies Act No. 07 of 2007 and other relevant financial reporting related regulations and requirements.

The Audit Committee reviewed and recommended the annual Financial Statements prior to the final approval by the Board.

The Audit Committee also reviewed the adequacy and proper continuous functioning of the internal control procedures of the Corporation to obtain reasonable assurances that the financial statements of the Corporation accurately reflect the state of affairs of the Corporation and the results for the period to which it relates. An independent internal audit is carried out as and when required, Internal Audit Reports are reviewed and discussed with management with a view to further strengthening the internal control environment within the corporation. The Audit Committee also assessed major business and control risks of the Company.

MEETINGS

Three Audit Committee meetings were held during the year. The Audit Committee meeting attendance of the directors/members was as follows.

Mr. A. K. Senevirathne (1/3)

Mr. W.G.A. Indika (2/3)
Mr. R. Srivasan (2/3)
Mr. Purna Perera (1/3)
Mr. M. D. P. Thilaksiri - By invitation (3/3)

If Directors are unable to attend a meeting, they have the opportunity to discuss any agenda items with the committee Chairman and to request for an excuse.

The Representative from the National Audit Office, Chief Accountant of the Line Ministry, General Manager, Deputy General Managers, Assistant General Managers and Sectional Heads also attended the meeting by invitation of the Audit Committee. The Internal Auditor functions as the Convener of the Committee.

Reviews:

The audit committee reviewed the following for the year concerned.

1. Submission of the Annual Report for the Year 2015/16, 2016/17 and 2017/18 to Parliament:

Recommendation:

- ✓ To get it translated all translations of Annual Reports before the Annual General Meeting (AGM) and arrange translations only the amended papers after the AGM
- ✓ To expedite the process of submitting the Annual Reports to Parliament.

2. Disposal of the Inventory Items:

Recommendation:

The Audit Committee instructed to appoint a three-member committee to review and make recommendations to complete the Asset Disposal process.

3. Approval for the Corporate Plan 2018 to 2023:

Recommendation:

The Audit Committee instructed to convert the dollar loan obtained for vessel purchasing to a rupee loan after consultation with the Management of Peoples' Bank.

4. Logistic Advances:

Recommendation:

The Audit Committee instructed that to supervise all the logistic advances properly.

5. Internal Audit Reports:

Recommendation:

It was decided that to submit Internal/External Audit Reports etc. to the Audit Committee Meetings for their review and make necessary guidance.

6. Overdue Advances:

Recommendation:

The Audit Committee recommended that to submit the list of overdue advances which have been identified as unrecoverable to the Department of Public Finance and request approval to remove the balances from the books.

7. Review of Internal Audit Plan – 2019/20:

Recommendation:

The Audit Committee recommended submitting the annual Audit Plan to the Board for Approval.

8. Review of Internal Control System:

Recommendation:

It was recommended to submit the Internal Control System to the Board for approval

9. Debtor Control:

Recommendation:

To maintain a proper Debt Management system

10. Vessel Valuation for Impairment:

Recommendation:

It was recommended that to appoint an independent valuer as the Government Valuer for the valuation of CSC vessels.

11. Solvency Test:

Recommendation:

It was instructed that to submit suitable proposals to the Management and Board for the problem of Going Concern/Liquidity. Further the Audit Committee recommended that to consult the auditors and act on their advice/recommendations.

12. Circulars of the Election Commission:

Recommendation:

Audit Committee instructions were made to prevent misappropriation of CSC vehicles during the period of election and to comply with the circulars issued by the Commissioner of Elections.

13. Computerized Accounting Package with Business Solution:

Recommendation:

The Committee recommended selecting a suitable Service Provider for a Business Solution Package to CSC.

14. Imposition of Surcharges:

Recommendation:

The Audit Committee advised all officers of CSC to maintain a high level of integrity and transparency when performing duties, and refrain from all types of surcharges or disciplinary actions referred to Section 19 of the National Audit Act.

Conclusion:

The minutes of the Audit Committee and other reports are submitted to the Board of Directors for their reference and necessary actions. And also, copies of the minutes of the meetings are submitted to the Secretary of the Ministry.

On behalf of the Committee

Mr. W.G.A. Indika
Chairman- Audit Committee

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Acknowledgement

*The Hon. Minister of Ports & Shipping and Southern Development
has continued to give the Corporation,
his fullest support, advice and encouragement of which the Corporation is thankful.*

*The Corporation has also to thank the officials in the Ministry of Ports & Shipping
and Southern Development for their co-operation and assistance in fulfilling the
aspirations of the Corporation.*

*The Corporation wishes to thank the Sri Lanka Ports Authority, Sri Lanka Customs and
The Foreign Agents for their assistance and co-operation at all times.*

*The Corporation also owes a debt of gratitude to all its customers who have
use of its services and for all the co-operation received from them.*

THANKS TO THE STAFF

*Management / Employees relationships continued to improve during the year under
review with the staff, generally presenting a cordial and co-operative attitude. The
unions provide to be very responsible and responsive in their dealings with the
management.*

*The management must place on record the dedicated, conscientious and loyal services
rendered by all employees, both afloat and ashore, which enabled the Corporation to
withstand the severe recession facing the Shipping Industry.*



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

PAS/B/CSCL/01/20/ 06

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

08 March 2022

Chairman

Ceylon Shipping Corporation Limited

Agm (F)
FNA
6/4/2022

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Ceylon Shipping Corporation Limited for the year ended 31 March 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Ceylon Shipping Corporation Limited ("Company") for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



1.2. Basis for Qualified Opinion

- (a) As per the financial statements, loss for the year under review was Rs. 1,154,469,108 and the cumulative loss as at 31 March 2020 was Rs. 2,647,715,036. Further, net assets of the company as at 31 March 2020 was a negative value of Rs. 1,275,502,117 and it was observed that these were the clear indication of material uncertainties about the going concern of the company. To overcome this situation the company had proposed some mitigating measures in their extra ordinary meeting (EGM) held on 3rd July 2021. The report submitted to the EGM relevant to the financial year 2019/20 main reason for the loss for the year under review was exchange loss amounting to Rs. 1,009 million arising from converting USD loan balance to rupee value as at 31st March 2020. Even though, in this meeting management was given the consent to convert the USD loan to LKR loan and rescheduling the loan with favorable terms and condition including reduce the interest rate from 7.88 percent to 2 – 4 percent as the ship building industry normal practice. However, consent had not been granted by the Central Bank and loan could not converted to LKR. Loan had rescheduled by the bank from 15 year to 20 years. But the interest rate had not reduced as expected up to 2 - 4 percent and only 0.25 percent from 5.25 percent +6-month LIBO had been deducted. Therefore, the main loss mitigating factor based on cash flows generating before and after converting the loan from USD to LKR as per the board resolution No: 259/2021/151 had not been succeeded.

Further, refinancing process of loan as per the cabinet decision on 17 November 2020 had not been completed even by 21 January 2022. Other proposals for diversification the business as a business strategies in achieving long-term growth as ; promoting Sri Lanka flag registry, operating a floating bunker storage, building a boat for the transportation of passenger and cargo at Norachchola, operating a feeder service between Colombo and Bangladesh in coordination with Bangladesh shipping corporation and hiring a tanker vessel in time or bareboat charter basis to enter for the sea transportation of crude oil, have not been implemented.

- (b) As per paragraph 51 of the Sri Lanka Accounting Standard (LKAS 16) on “Property, Plant and Equipment” the residual value and the useful life of an asset shall be reviewed at least at each financial year end and if expectation differ from previous estimate, the change(s) shall be accounted for as a change in an accounting estimate in accordance

with LKAS 8 Accounting Policies, Changes in Accounting Estimate and Errors. Contrary to that it was observed that Rs. 41,315,756 valued assets were fully depreciated at the time of preparing financial statements and still they were used by the company. However, action had not been taken to revalue the assets and make necessary adjustments as required.

- (c) As per paragraph 35 of the Sri Lanka Accounting Standards on Presentation of Financial Statements (LKAS 01), foreign exchange gains and losses on transaction and if they are material, Company shall presents such gains and losses separately. However, contrary to that the Company had offset Rs. 79,314,975 exchange gain earned on settlement by outside parties beside the cost incurred against the direct expenses Rs. 2,715,856,270.

Further, as per paragraph 32 of same standards, Company shall not offset assets against liabilities unless permitted by the standards. However, contrary to that the company had offset Rs. 888,948 debit balances against trade payables. As a result, direct expenses and trade payable had understated by Rs. 79,314,975 and Rs. 888,948 respectively at the end of the year under review.

- (d) According to paragraph 39 (a) of the Sri Lanka accounting Standard 21 (LKAS 21) on “assets and liabilities, for each statement of financial position presented shall be translated at the closing rate at the date of that statement of financial position”. However, contrary to that the Company had not translated the balance payable Rs. 114,247,992 (USD 745,246) which is the deposit made by ship building company, for in Lieu of remaining warranty claims as per the ship building agreements of two vessels. Hence guaranty repair receivables (liability) had been understated by Rs.29,176,836. Further, foreign creditors (Shipping agents) which were in different foreign currencies aggregating to Rs. 831,367,435 had not been translated, at closing rate prevailing at the date of financial statements.

- (e) As per the Sri Lanka Accounting Standards on Impairment of Assets (LKAS 36), the Company had assessed the value of two vessels based on estimated expected future cash flows for next 20 years and had confirmed that there was no impairment as at 31 March 2020. As per expected charter rates on open market operations of Mv Ceylon Princess and Mv Ceylon Breeze for the year 2020/21, was USD 12,427 for each vessel per day. However, the company was able to earn average charter rates from Mv. Ceylon Princess

and Mv. Ceylon Breeze for the year 2020/21, was USD 7,694 and USD 10,871 per day respectively. It had shown a significant difference between actual and forecasted charter rates. However, no disclosure had been made in the notes to the financial statements on that matter by the Company.

- (f) In the process of estimating the value of two own vessels, using value in use method in annually, company had included different amount of operating expenditure values for the same year, without acceptable evidences. It was observed that when calculating the value for the year under review operating expenditure for the year 2018/19, has considered as USD 4339. However, in calculating the value under value in use method for the years 2017/18 and 2018/19 it was considered as USD 4611 and 4693 respectively.
- (g) Even though the bunker stocks (Fuel stock) of two vessels aggregating to Rs.4,406,084 (MV Ceylon Princes and MV Ceylon Breeze) had sold, the value of those stocks had been taken as closing stock of the previous year bunker stock erroneously. Therefore, opening bunker stock for the year under review had overstated by similar amount.
- (h) As a result of the incorrect opening stock as mentioned in (h) above and issuing the stocks at different rates using FIFO method and incorrect calculations, the bunker consumption cost mentioned under direct operating expenditure for the year under review had been overstated by Rs. 6,382,082.
- (i) Offline bunker usage in vessel MV Ceylon Breeze during the charter period to the value of Rs. 1,120,526 had been debited to the bunker stock account instead of recognizing as bunker expenditure. Hence, bunker stock had been overstated and bunker expenditure had been under stated by similar amount in the comprehensive income statement and financial position respectively at the end of the year under review.
- (j) The Company had incurred a loss of Rs. 10,905,686 due to the reduction of rate charged for bunker stock when the vessel MV Ceylon Breeze transferred between two charterers (Voyage 27 to voyage 28). This loss had been debited to the bunker stock account. Hence, bunker stock as at 31 March 2020 had been overstated by similar amounts.

- (k) Good and Service tax and National Security Levy receivable amounting to Rs.18,936,777 and Rs. 2,612,349 respectively had remained over 10 years without being recovered. However, as required by the para 5.5 of the SLFRS 9 – Impairment, Company had not recognized a loss allowance for expected credit losses on a financial asset.
- (l) Accuracy and existence of Debtors aggregating to Rs. 85,626,802 from 23 debtors and Trade payable aggregating to Rs. 29,306,426 from 14 creditors could not be ascertained in audit due to lack of sufficient, appropriate evidence and confirmations. Further, only one trade creditor who had balance of Rs.1,783,438 had confirmed his balance as Rs.693,944. Hence, it was observed a difference of Rs. 1,089,493 between confirmed balance and the balance in financial statements.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4. Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.

However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.
- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

Reference to Law/Direction	Description
(i) Paragraph No.7.4.5 of the public enterprises circular No: PED12 dated 02 June 2003	Annual board of survey should be carry out to verify the fixed assets and stores. However, physical verification had not been carried out as at 31 March 2020 for inventories valued Rs.203,195,599 lying in the two vessels and further observed that the company does not have a mechanism to physically verify inventories when vessels are away from country.
(ii) Management Services Department Circulars No. 2017/05 dated 25 October 2017.	The professional allowance is entitled only to the officers who are not entitled to the allowance, mention in the circular. However, contrary to that the Company had paid professional allowance aggregating to Rs.1,109,085 for 13 employees who received attendance allowance, secretary allowance, vehicle allowance, additional allowance and retention allowance.

(iii) Section 23 of the VAT Act to It is required to maintain a list of debtors and settle VAT on cash basis - creditors and as at the end of each taxable period. Inland Revenue Department However, Company had failed to maintain the letter no VAT /Gen/04 dated 3 record.

September 2003

- to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.
- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

3. Other Audit Observation

- (a) Total trade receivables as at 31 March 2020 were Rs. 3,049,370,999 and out of that total debtors amounting to Rs. 585,908,130 were outstanding over three years and debtors of Freight clearance, Government Container deposit and Other debtors aggregating to Rs. 93,997,639 were outstanding over 06 years.
- (b) Agency commission receivable from 13 agents amounting to Rs. 2,592,955 had remained without being recovered over 03 years. Further, 12 agents are not in operation and their aggregate balance as at the end of the year under review was Rs.2,004,609 and the Company had not provided relevant agreement for audit.
- (c) The Company had maintained two separate ledger accounts in the IFS accounting system for one bank account.
- (d) The Company was liable to pay Value Added Tax (VAT) based on the cash basis according to the Inland Revenue Department direction issued on 3 September 2003 by letter No: VAT/Gen/04. A sum of Rs. 66,419,287 had existed as VAT payable due to fail to collect the VAT from the Lanka Coal Company (Pvt) Limited from the date of 19 November 2012 to 16 January 2018. Further, Inland Revenue Department had been

issued clarification on 17 January 2018 under letter No: ACT 17/9 with regard to the dispute arose between Lanka Coal Company Limited with the Company relevant to the lightering that consider declaration as zero rated from 17 January 2018, and it deemed that Lanka Coal Company (Pvt) Limited requires to pay the default VAT to the Company. This dispute had remained long outstanding and action had not been taken to recover the default VAT from Lanka Coal Company (Pvt) Limited and remit to the Inland Revenue Department.



W.P.C. Wickramaratne

Auditor General

CEYLON SHIPPING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March

	Notes	2020 Rs.	2019 Rs.
Revenue	4	3,849,354,149	3,053,156,359
Direct Operational Expenses		(2,636,981,156)	(2,075,877,736)
Gross Profit		<u>1,212,372,993</u>	<u>977,278,623</u>
Other Income	5	117,664,629	237,068,906
Administration Expenses		(216,649,745)	(221,076,152)
Profit from Operations before Impairment of Assets		<u>1,113,387,878</u>	<u>993,271,377</u>
Impairment of Assets		(268,323,431)	(133,297,811)
Profit from Operations	6	<u>845,064,447</u>	<u>859,973,566</u>
Finance Expenses	7	(1,952,380,884)	(2,417,806,566)
Share of Profit of Associates - (Net of Tax)	14.2	22,100,882	34,691,909
Profit/(Loss) before Tax		<u>(1,085,215,556)</u>	<u>(1,523,141,091)</u>
Income Tax Income/(Expenses)	8	-	-
Profit/(Loss) for the Year after Income Tax		<u>(1,085,215,556)</u>	<u>(1,523,141,091)</u>
Deffred Tax Adjustment for the year	17	(69,253,553)	420,301,502
Profit/(Loss) for the Year after Income Tax & Diffred Tax Adjustment		<u>(1,154,469,108)</u>	<u>(1,102,839,589)</u>
Basic and Diluted Earnings Per Share	9	(217)	(305)
Profit for the Year		(1,154,469,108)	(1,102,839,589)
Other Comprehensive Income			
Loss on Changes in Fair Value of Available-for-Sale Financial Assets	16.1	(5,342,534)	(2,218,106)
Loss Arising from Changes in Actuarial Assumptions	29.1	(9,587,688)	2,823,945
Share of Other Comprehensive Income of Associates - (Net of Tax)	14.2	310,099	10,637,743
Total Comprehensive Income for the Year		<u>(1,169,089,231)</u>	<u>(1,091,596,007)</u>

The Accounting Policies and Notes on pages 7 to 33 form an integral part of the Financial Statements.



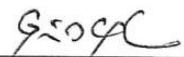
CEYLON SHIPPING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31st March

	Notes	2020 Rs.	2019 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	10	9,655,986,279	10,060,481,477
Capital Work-in-Progress - Vessels	11	-	-
Intangible Asset	12	-	-
Investment in Subsidiary	13	-	-
Investment in Associates	14	372,531,378	350,473,519
Available-for-Sale Financial Assets	16	13,658,404	19,000,938
Deferred Tax Asset	17	478,648,007	547,901,560
Total Non-Current Assets		10,520,824,068	10,977,857,494
Current Assets			
Inventories		203,586,679	85,127,353
Trade and Other Receivables	18	2,325,941,430	1,866,563,749
Statutory Receivables	19	32,177,013	29,752,592
Held to Maturity Investments	20	143,997,433	354,715,681
Short-Term Investments	21	24,107,923	23,384,244
Cash and Cash Equivalents	22	479,509,131	335,049,250
Total Current Assets		3,209,319,609	2,694,592,873
Total Assets		13,730,143,678	13,672,450,365
EQUITY AND LIABILITIES			
Equity			
Stated Capital	23	50,000,000	50,000,000
Contribution Against Equity Capital	24	543,939,497	543,939,497
Capital Reserve	25	767,029,766	767,029,766
Revaluation Reserve	26	3,065,444	3,065,444
Available-for-Sale Financial Assets Reserve		8,178,212	13,520,746
Retained Earnings		(2,647,715,036)	(1,433,218,760)
Total Equity		(1,275,502,117)	(55,663,307)
Non-Current Liabilities			
Long - Term Borrowings	28	12,434,283,858	11,502,038,858
Retirement Benefit Obligation - Gratuity	29	42,095,586	35,486,499
Deferred Tax Liability	17	-	-
Total Non-Current Liabilities		12,476,379,444	11,537,525,358
Current Liabilities			
Trade and Other Payables	30	1,618,262,436	1,334,143,387
Short Term Borrowing	31	808,290,000	747,600,000
Statutory Payables	32	76,180,071	79,470,042
Accrued Expenses	33	26,533,844	29,374,885
Total Current Liabilities		2,529,266,350	2,190,588,314
Total Equity and Liabilities		13,730,143,678	13,672,450,365

The Accounting Policies and Notes on pages 7 to 33 form an integral part of the Financial Statements.

These Financial Statements are prepared in compliance with the requirements of the Companies Act, No.07 of 2007.


General Manager


Assistant General Manager-
Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Board


Director


Director

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CEYLON SHIPPING CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2020

	Stated Capital	Contribution Against Equity Capital	Capital Reserve	Revaluation Reserve	Available-for-Sale Financial Assets Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st April 2018	50,000,000	543,939,497	767,029,766	3,065,444	15,738,852	(350,742,996.50)	1,029,030,563
Profit for the year	-	-	-	-	-	6,902,137.66 (1,102,839,589.48)	6,902,138 (1,102,839,589)
Other comprehensive income	-	-	-	-	(2,218,106)	13,461,688.00	11,243,582
Balance as at 31st March 2019	50,000,000	543,939,497	767,029,766	3,065,444	13,520,746	(1,433,218,760.32)	(55,663,307)
prior year Adjustment	-	-	-	-	-	(50,749,578.08)	(50,749,578)
Loss for the year	-	-	-	-	-	(1,154,469,108.43)	(1,154,469,108)
Depreciation adjustment for IFRS	-	-	-	-	(5,342,534.00)	(9,277,589.00)	(14,620,123)
Other comprehensive income	-	-	-	-	-	-	-
Balance as at 31st March 2020	50,000,000	543,939,497	767,029,766	3,065,444	8,178,212	(2,647,715,035.83)	(1,275,502,117)

The Accounting Policies and Notes on pages 7 to 33 form an integral part of the Financial Statements.



CEYLON SHIPPING CORPORATION LIMITED
STATEMENT OF CASH FLOWS

For the year ended 31st March

	2020 Rs.	2019 Rs.
Cash flows from operating activities		
Profit/(loss) before tax	(1,085,215,556)	(1,523,141,091)
Adjustments for:		
Depreciation	413,455,923	413,573,546
Profit/loss on disposals of fixed assets	(74,144)	(40,400)
Provision for gratuity	3,864,205	4,943,265
Dividend income	(290,117)	(31,206)
Share of profit of associates - (net of tax)	(22,100,882)	(34,691,909)
Provision for impairment of trade debtors	268,323,431	133,297,811
Exchange Loss	992,935,000	1,328,213,870
Interest income	(28,946,143)	(73,416,766)
Interest expense	942,422,392	930,030,813
Operating profit before working capital changes	1,484,374,109	1,178,737,933
(Increase)/decrease in inventories	(118,459,326)	112,253,642
Decrease in trade and other receivables	(459,377,681)	(343,396,288)
Increase/(decrease) in trade and other payables	284,119,049	26,572,466
(Decrease)/increase in statutory receivables	(2,424,421)	(2,114,591)
(Decrease)/increase in statutory payables	(3,289,971)	(6,386,585)
Increase in accrued expenses	(2,841,041)	21,867,732
Cash generated from operations	1,182,100,718	987,534,309
Gratuity paid	(6,842,807)	(3,406,381)
Interest paid	(945,194,783)	(901,125,631)
Taxes paid	-	-
Net cash from operating activities	230,063,128	83,002,298
Cash flows from investing activities		
Purchase of fixed assets	(8,960,725)	(6,184,946)
Payments for vessels cost	-	-
Proceeds from disposals of fixed assets	74,144	40,400
Net Proceeds from/(investment) in held-to-maturity financial assets	(110,871,727)	65,611,610
Net investment in short-term investments	(723,679)	268,712,823
Interest received	34,588,622	48,335,394
Dividend received	290,117	31,206
Net cash used in investing activities	(85,603,247)	376,546,487
Cash flow from financing activity		
Vessel loan repayment	-	(535,880,000)
Net cash from financing activity	-	(535,880,000)
Net increase in cash and cash equivalents	144,459,881	(76,331,215)
Cash and cash equivalents at the beginning of the year	335,049,250	411,380,465
Cash and cash equivalents at the end of the year	479,509,131	335,049,250

Note 22

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Accounting policies and explanatory notes to the Financial Statements for the year ended March 31, 2020

1. GENERAL INFORMATION

1.1 Domicile and Legal Form

Ceylon Shipping Corporation Limited is a Limited Company incorporated in 1992 and domiciled in Sri Lanka as the successor to the Ceylon Shipping Corporation (CSC), which was established under the Ceylon Shipping Corporation Act No. 11 of 1971. The registered office and the principal place of business of the Company is situated at No. 27, MICH Building, Sir Razik Fareed Mawatha, Colombo 01.

1.2 Principal Activity and Nature of Operations

During the year, the principal activities of the company were providing management services in relation to shipping and owning and chartering of vessels.

There were no any significant changes in the nature of the principal activities of the company during the financial year under review.

1.3 Number of Employees

Total number of employees of the Company as at March 31, 2020 was 116 (March 31, 2019-121).

1.4 Reporting Date

The Company's financial reporting period ends on March 31 and the financial reporting period of the associate companies ends on 31st December. The Company adjusts significant transactions and events, if any that occur between the Company's end of the reporting period and the reporting period end of the associate companies.

1.5 Approval of Financial Statements

These financial statements were approved by the Board of Directors and authorized for issue on 19th February 2021

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes relevant to the financial statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act, No. 7 of 2007.

2.2 Basis of Measurement

The financial statements of the Company are prepared under the historical cost convention except for quoted investments designated as available-for-sale financial assets that have been measured at fair value and the revaluation of land. Adjustments have not been made for inflationary factors affecting the financial statements.



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.3 Comparative Figures

The previous year figures and phrases have been reclassified whenever necessary to conform to the current year presentation.

2.4 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency) and rounded to the nearest rupee value.

These financial statements are presented in Sri Lankan Rupees (Rs.) which is the Company's functional and presentation currency.

2.5 Use of Estimates and Judgments

The preparation of financial statements in conformity with the SLFRSs requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.6 Materiality and Aggregation

Each material class of similar item is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements prepared by the Company in accordance with the SLFRSs issued by The Institute of Chartered Accountants of Sri Lanka. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Foreign Currency Transactions/Translation

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of statement of financial position are translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction.

3.2 Income Tax Expense

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.



(a) Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company's liability to tax has been computed in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 and the subsequent amendments thereto.

(b) Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences).

Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The carrying amount of deferred tax is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

ASSETS AND BASES OF VALUATION

Assets classified as current assets in the statement of financial position are cash and those which are expected to be realised in cash during the normal operating cycle of the Company's business or within one year from the reporting date whichever is shorter. Assets other than current assets are those which the Company intends to hold beyond a period of one year from the date of financial position.

3.3 Property, Plant and Equipment

(a) Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses except the land which was carried at revalued amount in the statement of financial position. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. The cost of self-constructed assets includes the cost of materials and direct labour.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent Expenditure

The Company adds to the carrying amount of an item of property, plant and equipment, the cost of replacing parts of such an item, when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is



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derecognised. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

(c) Depreciation

Land is not depreciated. Depreciation is charged to the profit or loss so as to allocate the cost of assets less their residual value over the estimated useful lives of other items of property, plant and

Equipment, using the straight-line method. Estimated useful lives of assets are as follows:

Assets	Years
Buildings	20
Vessels	25
Motor Vehicles	04-10
Furniture and Fittings	10
Office Equipment and Computers	05

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in profit or loss, and included in 'other income' or 'other operating expenses'.

3.4 Intangible Asset

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software and systems. Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses. These costs are amortized over their estimated useful lives, as follows:

Computer Software	05 Years
-------------------	----------

Costs associated with maintaining computer software are recognized as an expense as incurred.

3.5 Investment in Associates

Associates are entities in which the Company has significant influence but not control, generally accompanying a shareholding directly or indirectly twenty percent or more of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

The Company's share of post-acquisition profit or loss is recognized in the statement of comprehensive income and its share of post-acquisition movements in the investee's other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

The Company determines at each reporting date whether there is any objective evidence that the

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

investments in the associates are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates in the statement of comprehensive income.

3.6 Non-Current Assets Held For Sale

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment once classified as held for sale/distribution to owners are not depreciated or amortised.

3.7 Impairment of Non-Financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.8 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Inventories comprise of consumables. The cost incurred in bringing inventories to its present location and conditions are accounted at purchase cost on First in First Out basis (FIFO).

Net realisable value is the price at which the inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

3.9 Financial Instruments

Financial Assets

The Company determines the classification of its financial assets at initial recognition and classifies its financial assets as follows:



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

(a) Classification

i. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, investments in term deposits, deposits and advances, and cash and cash equivalents in the end of reporting period.

ii Available for Sale Financial Assets (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available for sale financial assets comprise of long-term quoted and unquoted equity investments.

iii. Held to Maturity Investments (HTM)

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to maturity if the Company has the positive intention and ability to hold them until maturity. Held to maturity investments are included in current assets unless the investment matures more than one year. Held to maturity investments comprise of investment in Government Treasury Bills.

(b) Recognition and Initial Measurement

Financial assets classified as loans and receivables are recognized on the date on which the Company originates the transaction. Other financial assets are recognized on the trade-date on which the Company becomes a party to the contractual provision of the financial instrument. A financial asset is measured initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial assets.

(c) Subsequent Measurement

i. Loans and Receivables

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment.

ii. Available for Sale Financial Assets (AFS)

After initial recognition, quoted equity investments classified as available for sale financial assets are measured at fair value. Changes in the fair value of available for sale financial assets are recognized in other comprehensive income and presented as available for sale reserve in the statement of changes in equity. Unquoted equity investments are measured at cost less any impairment losses, as currently its fair value cannot be estimated reliably.



iii. Held to Maturity Investments (HTM)

Held to maturity investments are measured subsequently at amortized cost using the effective interest method. Amortized cost is computed taking into account of discount or premium on acquisition and transaction costs.

(d) Impairment of Financial Assets

i. Assets Carried at Amortized Cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

ii. Available for Sale Financial Assets (AFS)

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. For quoted equity investments, a significant or prolonged decline in the fair value of the investments below its cost is also evidence that the assets are impaired. If any such evidence exists for the quoted investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are reversed through profit or loss. The amount of reversal is recognized in the other comprehensive income.

For unquoted equity investments, a significant or prolonged decline in the value of the investments below its cost is also evidence that the assets are impaired. If any such evidence exists for the unquoted investments, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3.9.1 Trade and Other Receivables

Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, where the receivables do not bear interest and are valued at undiscounted amount of cash receivable. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment



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loss is recognised immediately in profit or loss. CSC has applied SLFRS 9 retrospectively, with the initial application date of 1st of April 2018.

3.9.2 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown in current liabilities on the statement of financial position.

The statement of cash flows has been prepared by using the “Indirect Method”.

Financial Liabilities

3.9.3 Trade and Other Payables

Trade and other payables are initially recognised at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest method.

3.9.4 Bank Overdrafts

Overdrafts are repayable in full on demand and are initially measured and subsequently stated at face value.

3.10 Government Grants

Grants from the government including non-monetary grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the statement of comprehensive income on a straight- line basis over the expected lives of the related assets.

Non-monetary grants are measured at carrying value of the non-monetary asset and account for both grant and asset at the carrying value.

LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities on the statement of financial position are those which fall due for payment on demand or within one year from the reporting date. Non-current liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted for in preparing these financial statements. Provisions and liabilities are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.11 Retirement Benefit Costs

The Company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined



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NOTES TO THE FINANCIAL STATEMENTS

benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually depend on one or more factors such as age, years of service and compensation.

**(a) Defined Contribution Plans - Employees' Provident Fund (EPF) and
- Employees' Trust Fund (ETF)**

All employees who are eligible for Employees' Provident Fund and Employees' Trust Fund contributions are covered by relevant contribution funds in line with respective statutes and regulations.

(b) Defined Benefit Plans - Retirement Gratuity

The liability recognised in the statement of financial position in respect of retirement gratuity is the present value of gratuity obligation at the reporting date. Gratuity obligations are measured using projected unit credit method calculated using the gratuity formula.

According to the Payment of Gratuity Act, No. 12 of 1983, the Company is liable to pay gratuity only to retiring employees who have completed five years of continuous service.

Actuarial gains/losses are recognised in other comprehensive income in the period those occurred.

Gratuity is not funded externally.

3.12 Contingencies and Capital Commitments

All material capital commitments and contingencies, which exist as at the reporting date, are disclosed in the respective notes to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

3.13 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

(a) Voyage Income

Revenue arises from cargo handling and transport services is recognized in the period in which the services are rendered based on completion of services and assessed on the basis of the actual services rendered.

(b) Charter Hire Income

Revenue from charter hiring is recognized over the period of the time charter agreement on an accrual basis.

(c) Agency Fee

Agency fee is recognized as revenue in the period in which the services are rendered based on completion of services.

(d) Interest

Interest income is recognised using effective interest method.



(e) Other Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for profit and loss, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

(f) Dividend Income

Dividend income is recognized when the right to receive payment is established.

3.14 Expenditure Recognition

All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to revenue in arriving at the profit or loss for the year.

3.15 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

3.16 Related Party Transactions

Disclosures have been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating decisions/policies irrespective of a price being charged.

3.17 New and amended standards and interpretations

SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease,

SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Standard did not have a material impact on Financial Statements of the Company that would require separate disclosure in the Financial Statements.



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For the year ended 31st March

	Notes	2020 Rs.	2019 Rs.
4 Revenue			
Voyage		1,055,883,158	504,664,830
Freight Income Own Vessel		1,638,808,541	1,165,408,583
Charter hire income from coal vsl		-	-
charter hire income from own vsl		592,200,642	853,074,876
Clearing and forwarding		19,583,422	45,227,864
Agency and address commission		542,528,386	484,767,562
		<u>3,849,354,149</u>	<u>3,053,156,359</u>
5 Other Income			
Profit on disposals of fixed assets		74,144	40,400
Dividend		290,117	31,206
Exchange gain		62,962,318	101,867,615
Interest income - Fixed deposits and treasury bills		28,946,143	73,416,766
Income from bunker recoveries own vessel		-	13,024,463
Interest income - Staff loans		1,773,627	1,683,728
Demurrage recoveries own vessel		13,549,679	45,815,346
Others		10,068,601	1,189,384
		<u>117,664,629</u>	<u>237,068,906</u>
6 Profit/(Loss) from Operations			
Profit/(loss) from operations is stated after charging all the operational expenses including the following.			
Auditor's remuneration		-	-
Depreciation		413,455,923	413,573,546
Professional and legal fees		953,910	2,088,645
Staff costs (Note: 6.1)		160,877,023	148,920,592
6.1 Staff Costs			
Directors' remuneration		225,560	250,920
Salaries and wages		131,698,381	132,029,334
Defined contribution plan costs - Employees' Provident Fund and Employees' Trust Fund		15,501,190	14,521,018
Defined benefit plan cost - Retiring Gratuity		13,451,893	2,119,320
		<u>160,877,023</u>	<u>148,920,592</u>
7 Finance Expenses			
Finance Expense			
Interest expense - Vessel loan		(942,422,392)	(930,030,813)
Exchange Loss		(1,009,958,492)	(1,487,775,753)
		<u>(1,952,380,884)</u>	<u>(2,417,806,566)</u>
8 Income Tax Income/(Expenses)			
Tax on ordinary activities	8.1	-	-
Reversal of deferred tax asset	17	69,253,552.72	(420,301,501.52)
Deemed dividend tax		-	-
		<u>69,253,553</u>	<u>(420,301,502)</u>



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March

	Note	2020 Rs.	2019 Rs.
8.1 Reconciliation between Taxable Profit and Accounting Profit			
Accounting profit before tax		(1,085,215,556)	(1,523,141,091)
<i>Less:</i> Share of profit of associates - (net of tax)		(22,100,882)	(34,691,909)
		<u>(1,107,316,438)</u>	<u>(1,557,833,000)</u>
Aggregated disallowable items		1,360,038,189	419,472,364
Aggregated allowable items		(12,074,615)	(1,892,832,681)
Impairment provisions for debtor impairments		268,323,431	133,297,811
Income not subject to tax		(29,236,260)	(73,217,134)
Assessable Income From Business		<u>479,734,307</u>	<u>(2,971,112,640)</u>
Assessable Income From Investment		29,236,260	73,217,134
<i>Add:</i> Other income liable for tax-interest income)			
Total statutory income/assessable income		<u>508,970,567</u>	<u>(2,897,895,506)</u>
		-	-
Current tax on ordinary activities for the year	8	<u>-</u>	<u>-</u>

9 Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is calculated by dividing the profit attributable to the equity holders by the weighted average number of ordinary shares in issue during the reporting period.

Amount used as the numerators

Net profit attributable to equity holders (Rs) (1,085,215,556) (1,523,141,091)

Amount used as the denominator

Weighted average number of shares in issue 5,000,000 5,000,000

Basic and Diluted Earnings Per Share (Rs.) **(217.04)** **(304.63)**

Basic and Diluted Earnings Per Share

Basic and diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the equity holders by the weighted average number of ordinary shares in issue during the reporting period.

Amount used as the numerator

Net profit/(loss) attributable to equity holders (Rs.) (1,085,215,556) (1,523,141,091)

As at 31st March 2020

10 Property, Plant and Equipment

	Land and Housing Project Rs.	Buildings Rs.	Vessel Rs.	Motor Vehicles Rs.	Furniture and Fittings Rs.	Office Equipment and Computers Rs.	Total Rs.
Cost/Valuation							
Balance as at 1st April 2019	5,286,340	43,390	11,235,780,363	31,232,915	20,758,192	23,204,529	11,316,305,729
Additions during the year	-	-	-	6,300,000	650,994	2,009,731	8,960,725
Transferred from capital work-in-progress-vessels during the year	-	-	-	-	-	-	-
Disposals during the year	-	-	-	(530,820)	(94,175)	(1,567,744)	(2,192,739)
Balance as at 31st March 2020	5,286,340	43,390	11,235,780,363	37,002,095	21,315,011	23,646,516	11,323,073,715
Accumulated Depreciation							
Balance as at 1st April 2019	1,244,740	43,390	1,193,731,571	29,720,042	12,172,773	18,911,736	1,255,824,252
Charge for the year	8,316	-	408,178,758	2,148,882	1,383,911	1,736,056	413,455,923
On disposals	-	-	-	(530,820)	(94,175)	(1,567,744)	(2,192,739)
Balance as at 31st March 2020	1,253,056	43,390	1,601,910,329	31,338,104	13,462,509	19,080,048	1,667,087,436
Net Book Value							
					Notes	2020 Rs.	2019 Rs.
Land and housing project						4,033,284	4,041,600
Buildings						-	-
Vessels						9,633,870,034	10,042,048,792
Motor vehicles						5,663,991	1,512,874
Furniture and fittings						7,852,502	8,585,419
Office equipment and computers						4,566,468	4,292,793
						9,655,986,279	10,060,481,478
Capital work-in-progress - Buildings					10.1	3,626,440	3,626,440
Provision for impairment						(3,626,440)	(3,626,440)
					10.2	9,655,986,279	10,060,481,478

CSC performed its annual Impairment Test considering the internal and external factors related to impairment as at 31st March 2020. The recoverable amount of the vessels as at 31st March 2020 was determined based on the method of **Value in Use** computation using estimated future cash flows and the assessments which were carried out by CSC internal committee comprising of professionals appointed by Chairmen of CSC, in accordance with the paragraph 33 of LKAS 36.

In assessing the Value in Use calculations of the vessels, the entity has made assumptions based on historical and cyclical trend as well as future expectation and estimations on future charter hire rates for the open market operations and Time Charter hire Equivalents (TCE) based on projected market freight rates for the period when the vessels will be operated for transportation of coal for the Lakvijaya Power Station and ships operating expenses. The pre-tax discount rate applied to cash flow projections is 6.82%. Residual values were estimated using the average Scrap Price of USD 350 per MT for the Calendar Year 2020 for dry bulk ships as per the Clarkson Shipping Intelligence Weekly (CSIW)



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NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
10.1 Capital Work-in-Progress - Buildings			
Balance at the beginning of the year		3,626,440	3,626,440
Balance at the end of the year	10	3,626,440	3,626,440
10.2 Carrying Value of Fixed Assets			
At cost		9,651,986,279	10,877,151,273
At valuation		4,000,000	4,000,000
	10	9,655,986,279	10,881,151,273

Land and Building were revalued on July 1994 by Government Valuation Department. This valuation was based on an open market value of the assets in the existing use with relevant adjustments with regard to those assets in sub optimal use. The results of the valuation net of deferred tax was recognized in the revaluation reserve.

10.3 The carrying amounts of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation are as follows:

Cost	1,120,000	1,120,000
Accumulated depreciation	(1,120,000)	(1,120,000)
Carrying value	-	-

Property, plant and equipment of the Company with a cost of Rs.16,704,617 (2015 - Rs.13,269,081) have been fully depreciated and held to continue to be in use by the Company.

11 Capital Work-in-Progress - Vessels

	MV Ceylon Breeze Rs.	MV Ceylon Prince Rs.	Total Rs.
Cost			
Balance as at 1st April 2016	-	-	-
Additions during the year	-	-	-
Borrowing costs	-	-	-
Transfer to Property, Plant and Equipment	-	-	-
Balance as at 31st March 2017	-	-	-

Average borrowing cost capitalisation rate - 15.59% (2015-10.91%)

As at 31st March

	2020 Rs.	2019 Rs.
12 Intangible Asset		
Computer Software		
Cost		
Balance at the beginning of the year	6,144,497	6,144,497
Balance at the end of the year	6,144,497	6,144,497
Accumulated Amortization		
Balance at the beginning of the year	6,144,497	6,144,497
Balance at the end of the year	6,144,497	6,144,497
Written Down Value as at 31st March	-	-



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

			2020 Rs.	2019 Rs.
13 Investment in Subsidiary				
	No. of Shares	Percentage of Holding		
Ceylon Shipping Agency (Private) Limited	9,999	100%	99,990	99,990
Provision for impairment			(99,990)	(99,990)
			-	-

Company has not consolidated the financial statements of the subsidiary as a result of the decision taken at the Board meeting held on March 20, 2006 to wind up the subsidiary. Subsequent to the Board decision, the subsidiary had ceased its operations since May 2006. Currently, the process of liquidation of subsidiary has been completed and winding up has to be done.

14 Investment in Associates

Carrying Value on Equity Method

Ceylon Shipping Lines (Private) Limited	293,167,807	275,820,432
Ceylon Shipping Agency (Pte) Ltd - Singapore	79,363,571	74,653,087
	372,531,378	350,473,519

14.1 Investment in Associates

Cost

	No of Shares	Percentage of Holding		
Ceylon Shipping Lines (Private) Limited	156,942	39%	1,569,420	1,569,420
Ceylon Shipping Agency (Pte) Ltd - Singapore	24,500	49%	143,622	143,622
			1,713,042	1,713,042

14.2 Movement of Investment in Associates on Equity Method

Investor's Share of Net Assets

Balance at the beginning of the year	350,473,519	305,496,989
Share of profit of associates - (net of tax) (14.2)	22,100,882	34,691,909
Share of other comprehensive income of associates - (net of tax)	310,099	10,637,743
Dividend income	(353,122)	(353,122)
Balance at the end of the year	372,531,378	350,473,519

14.3 Summarized Financial Information of Associates

	Ceylon Shipping Agency (Pte) Ltd - Singapore		Ceylon Shipping Lines (Private) Limited	
As at 31st December	2019	2018	2019	2018
Total assets	265,933,862	263,801,265	925,944,606	880,728,973
Total liabilities	96,505,049	103,985,685	85,837,344	91,176,262
Net assets	169,428,812	159,815,580	803,097,078	758,616,654
Revenue	864,388,724	986,854,688	490,132,018	488,004,656
Operating expenses	856,368,199	974,417,729	496,839,651	524,770,687
Other income	202,452	124,862	26,628,274	93,736,801
Profit for the year	8,222,977	11,988,323	46,337,494	73,891,362
Other comprehensive Income for the year	-	-	(951,605)	(579,419)

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
15 Financial Instruments			
Categories of Financial Assets and Financial Liabilities			
The carrying value of the financial assets and liabilities reported in the statement of financial position are as follows;			
The Carrying Values of Financial Assets and Liabilities			
15.1 Financial Assets			
15.1.1 Available-for-Sale			
Quoted investment	16.1	11,281,334	16,623,868
Unquoted investments	16.2	2,377,070	2,377,070
		<u>13,658,404</u>	<u>19,000,938</u>
Quoted investment is measured at fair value based on active market quoted prices. Unquoted investments are measured at cost less provision for impairment as their fair value can not be reliably measured.			
15.1.2 Held to Maturity Investments			
Investment in treasury bills	20	<u>143,997,433</u>	<u>354,715,680</u>
Held to maturity investments are measured inclusive of interest receivable.			
15.1.3 Loans and Receivables			
Trade and other receivables	18	2,325,941,430	1,866,563,749
Short-term investments	21	24,107,923	23,384,244
Cash and cash equivalents	22	479,509,131	335,049,250
		<u>2,829,558,484</u>	<u>2,224,997,243</u>
Loans and receivables are stated at their carrying value as their carrying value approximates the fair value.			
Total Financial Assets		<u><u>2,987,214,322</u></u>	<u><u>2,598,713,862</u></u>
15.2 Financial Liabilities			
Trade and other payables	30	1,618,262,436	1,334,143,387
Total Financial Liabilities		<u><u>1,618,262,436</u></u>	<u><u>1,334,143,387</u></u>

Financial liabilities are stated at their carrying value as their carrying value approximates the fair value.



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
16 Available-for-Sale Financial Assets			
Quoted investment	16.1	11,281,334	16,623,868
Unquoted investments	16.2	2,377,070	2,377,070
		<u>13,658,404</u>	<u>19,000,938</u>

16.1 Quoted Investment

Balance at the beginning of the year		16,623,868	18,841,974
Loss on changes in fair value		(5,342,534)	(2,218,106)
Balance at the end of the year	16	<u>11,281,334</u>	<u>16,623,868</u>

	No. of Shares	2020		2019	
		Cost Rs.	Market Value Rs.	Cost Rs.	Market Value Rs.
Mercantile Shipping Company PLC	238,506	<u>2,068,800</u>	<u>11,281,334</u>	<u>2,068,800</u>	<u>16,623,868</u>

16.2 Unquoted Investments

Unquoted investments are stated at cost less impairment losses as their fair value can not be reliably measured.

	Notes	2020 Rs.	2019 Rs.
	No. of Shares		
Associate News Papers of Ceylon Limited	31,206	312,060	312,060
Ceylon Port Services Limited	5,000	50,000	50,000
Sri Lanka Port Management and Consultancy Ltd	1,501	15,010	15,010
Lanka Coal Company (Private) Limited	200,000	2,000,000	2,000,000
	16	<u>2,377,070</u>	<u>2,377,070</u>

17 Deferred Tax Asset/(Liability)

Balance at the beginning of the year		547,901,560	125,300,596
Reversal during the year	8		2,299,463
During the year		(69,253,553)	420,301,502
Balance at the end of the year	17.1	<u>478,648,007</u>	<u>547,901,560</u>

Deferred tax is recognised for temporary differences between the carrying amount of assets and liabilities and tax base of assets and liabilities. Deferred tax has been measured by the effective tax rate of 24%.

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
17.1 The Analysis of Deferred Tax Asset and Liability			
Deferred Tax Liability			
From accelerating depreciation		(2,313,523,583)	(2,812,369,503)
		<u>(2,313,523,583)</u>	<u>(2,812,369,503)</u>
Deferred Tax Asset			
From Tax Loss		2,717,671,026	3,314,055,553
Provision for impairment		64,397,623	37,323,387
From retirement benefit obligation		10,102,941	9,936,220
		<u>2,792,171,590</u>	<u>3,361,315,160</u>
	17	<u>478,648,007</u>	<u>548,945,657</u>

Deferred tax asset is recognized for provision for retirement benefit obligation and tax loss to the extent that the realization of the related tax benefits through future taxable profits/loss are probable and deferred tax liabilities are recognized for accelerating depreciation and revaluation surplus.

18 Trade and Other Receivables

Trade receivables	18.1	2,199,742,282	1,761,527,697
Deposits and advances	18.2	18,350,308	14,268,099
Staff receivables	18.3	52,540,792	51,652,961
Other receivables	18.4	55,308,048	39,114,991
		<u>2,325,941,430</u>	<u>1,866,563,748</u>

18.1 Trade Receivables

Trade receivables		3,049,370,999	2,303,952,163
Trade Control A/C (Local)		19,961,580	58,842,401
Coal Transaction Control A/C		283,199	283,199
Provision for impairment		(869,873,496)	(601,550,065)
	18	<u>2,199,742,282</u>	<u>1,761,527,697</u>

Trade receivables comprise the following receivables from related parties.

Receivables from Related Parties

Government Institutions		243,243,702	290,369,120
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The aging of the trade receivables is as follows.

Aging of the Trade Receivables

Up to one year		1,931,374,657	1,526,385,903
1 to 4 years		532,088,212	197,417,883
More than four years		585,908,130	580,148,377
		<u>3,049,370,999</u>	<u>2,303,952,163</u>

Trade receivables have been reviewed for impairment. Certain trade receivables are found to be impaired and provision for impairment has been made on the basis as stated in note 3.9.1

The Details of Provision for Impairment of the Trade Receivables;

Specific Impairment

Government institutions		36,206,870	36,206,870
Foreign agents		64,024,592	64,024,592
Private institutions		44,083,601	44,083,601
Others		31,944,098	31,944,098

Collective Impairment

		693,614,335	425,290,904
		<u>869,873,496</u>	<u>601,550,065</u>

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
18.2 Deposits and Advances			
Container deposits		13,642,255	11,967,590
Other refundable deposits		6,042,809	6,758,232
Advances		6,994,154	3,871,187
		<u>26,679,218</u>	<u>22,597,009</u>
Provision for impairment		(8,328,910)	(8,328,910)
	18	<u>18,350,308</u>	<u>14,268,099</u>
18.3 Staff Receivables			
Staff loans		51,092,349	49,917,885
Advances and others		1,448,442	1,735,076
	18	<u>52,540,792</u>	<u>51,652,961</u>
18.4 Other Receivables			
Guarantee repairs receivable		19,839,635	19,839,635
State institutions temporary surplus fund at the general treasury		-	-
Others		58,770,223	42,577,167
		<u>78,609,858</u>	<u>62,416,801</u>
Provision for impairment		(23,301,810)	(23,301,810)
	18	<u>55,308,048</u>	<u>39,114,991</u>
19 Statutory Receivables			
Withholding Tax		8,472,050	8,189,291
Goods and Services Tax		18,936,777	18,936,777
National Security Levy		2,612,349	2,612,349
Double Tax		2,141,662	-
		<u>32,177,013</u>	<u>29,752,592</u>
20 Held to Maturity Investments			
Investment in treasury bills		<u>143,997,433</u>	<u>354,715,680</u>
21 Short-Term Investments			
Investment in fixed deposits	21.1	1,890,429	1,794,157
S/I Surplus Fund at the General TR		57,019	57,019
State Mortgage and Investment Bank - for staff loans		22,160,476	21,533,069
		<u>24,107,923</u>	<u>23,384,244</u>
21.1 Investment in Fixed Deposits			
Bank of Ceylon		1,310,700	1,310,700
Commercial Bank of Ceylon PLC		35,000	35,000
Commercial Bank of Ceylon PLC - security and housing loan		544,729	448,457
	21	<u>1,890,429</u>	<u>1,794,157</u>

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
22 Cash and Cash Equivalents			
Cash in hand		91,967	93,171
Cash at bank		479,417,164	334,956,078
Balance for Statement of Cash Flows		<u>479,509,131</u>	<u>335,049,250</u>

23 Stated Capital

Issued and Fully Paid

5,000,000 Ordinary Shares of Rs. 10/= each

<u>50,000,000</u>	<u>50,000,000</u>
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24 Contribution Against Equity Capital

This represents funds received from the treasury for capital contribution, advances to working capital and for investing in new passenger terminal for ferry services.

25 Capital Reserve

This represents settlements made by the treasury on behalf of the Company including ASTARSA loan and treasury guaranteed loan obtained from People's Bank.

26 Revaluation Reserve

The revaluation reserve relates to the revaluation surplus of property, plant and equipment as per the valuation carried out in 1994. Once the respective revalued assets have been derecognised, portion of revalued surplus will be transferred to retained earnings.

28 Long - Term Borrowings

People's Bank - Vessel Loan	28.1	11,527,755,000	10,663,482,000
People's Bank - Interest Capitalisation Loan	28.2	906,528,858	838,556,858
		<u>12,434,283,858</u>	<u>11,502,038,858</u>

28.1 People's Bank - Vessel Loan

Balance at the beginning of the year		11,411,082,000	10,583,328,000
Payments during the year		-	(535,880,000)
Exchange loss		924,963,000	1,363,634,000
		<u>12,336,045,000</u>	<u>11,411,082,000</u>
Repayable within one year	31	808,290,000	747,600,000
Repayable after one year	28	<u>11,527,755,000</u>	<u>10,663,482,000</u>

Treasury has given guarantee to cover the full value and tenor.

28.2 People's Bank - Interest Capitalisation Loan

Balance at the beginning of the year		838,556,858	741,851,026
Proceeds during the year		-	-
Exchange loss		67,972,000	96,705,832
Balance at the end of the year		<u>906,528,858</u>	<u>838,556,858</u>
Repayable after one year	28	<u>906,528,858</u>	<u>838,556,858</u>

Treasury has given guarantee to cover the full value and tenor.



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31st March

	Notes	2020 Rs.	2019 Rs.
29 Retirement Benefit Obligation - Gratuity			
Balance at the beginning of the year		35,486,499	36,773,560
Provision for the year	29.1	13,451,893	2,119,320
		48,938,392	38,892,880
Payments made during the year		(6,842,807)	(3,406,381)
Balance at the end of the year		<u>42,095,586</u>	<u>35,486,499</u>
29.1 Provision for the Year			
Current service cost		2,136,515	1,588,770
Interest charge for the year		1,727,690	3,354,495
Loss arising from changes in actuarial assumptions	29	9,587,688	(2,823,945)
		<u>13,451,893</u>	<u>2,119,320</u>
The principal assumptions used are as follows.			
Discounting factor		6.00%	10.00%
Expected future salary increment		1.10%	3.00%
Staff turnover factor		6.80%	2.50%
Retirement age		60 years	60 years
These assumptions are developed by the Company based on the management's best estimates of variables used to measure the retirement benefit obligation. Discounting factor is determined on the basis of market rates of long-term Government Bond.			
30 Trade and Other Payables			
Trade payables		1,161,351,942	951,687,533
Deposits		4,980,684	2,517,616
Interest payable for vessel loan		149,519,734	152,292,125
Others		302,410,075	227,646,113
		<u>1,618,262,436</u>	<u>1,334,143,387</u>
31 Short -Term Borrowings			
People's Bank - Vessel loan		<u>808,290,000</u>	<u>747,600,000</u>
32 Statutory Payables			
N.B.T		9,010	9,768
Income Tax		9,665,215	9,665,215
Stamp Duty		30,974	30,399
Value Added Tax		66,473,609	69,876,246
Goods Services Tax		1,262	(111,587)
		<u>76,180,071</u>	<u>79,470,042</u>
33 Accrued Expenses			
Accrued expenses		<u>26,533,844</u>	<u>29,374,885</u>

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

34 Contingent Liabilities

There were no materialized Contingent liabilities as at the end of the reporting period which required adjustments or disclosure to be made in the financial statements except the legal claims arising in the ordinary course of business operation to consider, if these claims to be made justified and probability of an outflow due to remoteness of settlement. This evaluation is in consistent with legal opinion of the Company's Legal Division; therefore no provision has been made for the following cases,

1. MvLanka Mahapola had been chartered out to M/s Triple "s" Shipping Ltd in the year 2011 and the said company has de-faulted the Charter hire, after paying few hires and subsequently deserted the ship at the Port of Mombasa, Kenya without proper redelivery of the vessel with huge amount of arrears in crew wages and operations expenses and also the vessel was under arrest and detained by the Maritime Authorities. With a view of recovering all dues from M/s Triple "S" Shipping Ltd, an Arbitral process has been initiated in terms of Charter party signed with them and currently it is in the process. The evidence of the Plaintiff has been concluded and evidence in chief of the respondent began.

2. The Company entered into an Agreement with MsTaurian Iron & Steel Company (TISC) in Mumbai, India to supply coal for Lanka Coal Company (Pvt)Ltd(LCC), the procuring arm of coal for "Lakvijaya" power plant in Puttalam belongs to Ceylon Electricity Board (CEB) The supply of coal under the said Agreement had to be halted due to a quality issue of coal supplied by the TISC. In order to reach an amicable solution as advised by AG's Department a Committee has been appointed by the Cabinet of Ministers and the Committee compiled a report and submit the same for the line Ministry for further action. The line Ministry in turn has submitted the report to the CEB and LCC for their review and comments before the report to be submitted to the Cabinet of Ministers. The comments and concerns are yet to be received by the line Ministry as informed.

3. The transportation of crude oil for Ceylon Petroleum Corporation(CPC) had to be discontinued due to a dispute arose between the foreign ship owner and the disponent owner of the vessel from whom the CSC chartered the vessel for the carriage of crude oil. This discontinuation resulted financial dispute between Ceylon Shipping Corporation Ltd and the disponent owner Ms Luna Shipping and finally with the CPC. The financial dispute with the Ms Luna Shipping and CSC was brought to the notice of at the AG's Department and the AG was of the view that the Arbitration process could be initiated in London as per the COA signed with them for the recovery option. In the meantime to resolve the issue with Ceylon Petroleum Corporation a Committee was appointed with the high ranking officers of CSC, CPC and from the Treasury. The Committee in their process has requested CSC and CPC to make a joint submission to AG's Department for the clarity on certain legal issues to finalize the Committee report. The preparation of the joint submission is in the process. In these circumstances the Board of Directors of the CSC set aside the initiation of Arbitral process against Luna Shipping in London until the issue with CPC is resolved. The said Committee in its interim report recommended referring certain legal issues to be clarified from AG's Department by submitting a joint request. The concurrence of the draft letter from CPC is yet to be received.

35 Related Party Disclosures

The Company's related parties includes Government of Sri Lanka, State-Owned Enterprises, Other Related Entities and Key Management Personnel.



CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

35 Related Party Disclosures (Continued)

35.1 Transactions with Key Management Personnel (KMPs)

According to Sri Lanka Accounting Standards, LKAS 24 - "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Directors, General Manager and Operational Managers have been classified as Key Management Personnel of the Company.

Transactions with Key Management Personnel	2020 Rs.	2019 Rs.
Remuneration and other short-term employment benefits	36,626,336	33,034,831
Balance outstanding - Loans and advances	7,835,787	8,827,264
- Post employment benefits	14,859,187	15,592,576

35.2 Transactions with Related Entities

Details of significant related party transactions that the Company carried out are as follows:

Transactions with Government of Sri Lanka, State-Owned Enterprises and Other Government Related Entities

The Government of Sri Lanka is only the capital holder of the Company and thus has control over its operation. Accordingly, the Company has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as related parties.

Related Parties	Nature of Transactions	Transaction Value	Balance (Due)/ Receivable as at 31/03/2020
		Rs.	Rs.
Government of Sri Lanka	Freight charges, charter hire, container rent, clearing & forwarding and other charges	838,491,988	
	Settlements	(690,867,093)	147,624,896
State-Owned Enterprises	Freight charges, clearing & forwarding and other charges	163,286,740	
	Settlements	(47,980,970)	115,305,770
	Freight charges, lightering and bunker escalation charges	7,511,072,434	
	Settlements	(5,228,239,669)	2,282,832,765
Other Government Related Entities	Clearing & forwarding and other charges	2,819,408	
	Settlements	(1,063,605)	1,755,803

36 Events after the end of the Reporting Period

No circumstances have been arisen since the date of Statement of Financial Position which would require adjustments to or disclosures in the Financial Statement other than the following.

1. In and around 28th April 2020 there was a reported collision incident between M.V. Ceylon Breeze and a Fishing Vessel(FV) in Chinese territorial waters. This matter was considered under collision liabilities in which the liability of H&M insurance was exempted due to below the deductible of USD100,000. But the liability of P&I Club for their portion (¼) remains unchanged

In these circumstances, the balance (¾) has to be absorbed by Ceylon Shipping Corporation Ltd in the final claim and its associated expenses i.e Survey expenses, Correspondent's expenses, Legal fees etc. The matter is currently under negotiation between lawyers appointed by P&I Club and the lawyers of FV.

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

37 Capital Commitments

The company has committed to purchase two new 63,600 DWT Ultramax Bulkers with training purpose amounting to US\$ 70 Mn. from the Avic International Beijing Company Ltd. (China) on February 18, 2014. Cabinet of Ministers approved the purchase of two new 63,600 DWT Ultramax Bulkers with training purpose under the unsolicited proposal on December 23, 2013.

The Company has entered into an agreement with the supplier under the buyer credit terms and therefore the Company has sought its fund requirement by obtaining loan facility from the People's Bank amounting to US\$ 70 Mn. with the interest rate of 06 months LIBOR + 5.25% p.a. Further, the People's Bank has granted additional amount of US\$ 10Mn. with the interest rate of 06 months LIBOR +3% p.a. in order to pay the interest which has arisen from the above loan which CSC had utilized only US\$ 5.5Mn.

As at date of Statement of Financial Position, amount payable to the bank is US\$ 68,810,464.32.

38 Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments and the Company applies various risk management strategies to mitigate these risks from time to time.

38.1 Credit Risk

38.2 Liquidity Risk

38.3 Market Risk (Currency Risk and Interest Rate Risk)

The financial instruments of the Company comprise of quoted and unquoted equity investments, investment in term deposits and treasury bills, cash and cash equivalents. The Company also has trade receivables and payables from its core business activities. The main purpose of investment in short-term deposits are to maintain liquidity for the operations. Investment in quoted and unquoted equity investments are strategic investments.

38.1 Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty fails to meet its contractual obligations. Credit risk arises principally from deposits held with banks, cash and cash equivalents (excluding cash in hand) and receivables from customers. The maximum risk exposures of financial assets that are subject to credit risk are equal to their carrying amounts.

Following table depicts the maximum risk exposure of financial assets reported as at 31 March 2020

	Notes	2020 Rs.	2019 Rs.
Risk Exposure to Financial Assets			
Cash and cash equivalents	38.1.1	479,417,164	334,956,079
Term deposits with banks		24,107,923	23,384,244
Trade receivables	38.1.2	3,049,370,999	2,303,952,163
Other receivables		126,199,148	105,036,051
		<u>3,679,095,234</u>	<u>2,767,328,537</u>

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

38.1.1 Cash and Cash Equivalents

Cash and cash equivalents include cash at bank (excluding cash in hand), demand deposits and other short-term highly liquid investments with original maturities of three months or less described as follows.

	Note	2020 Rs.	2019 Rs.
Cash at bank		479,417,164	334,956,079
	38.1	<u>479,417,164</u>	<u>334,956,079</u>

38.1.2 Trade Receivables

The Company trades mainly with shipping agents and government institutions. The management assesses the credit quality of the shipping agents based on the past experience. In addition, outstanding balances are monitored on an ongoing basis in the management committee and the Board.

The age analysis of the Company's trade receivables portfolio is as follows:

	Note	2020 Rs.	2019 Rs.
Aging of the Trade Receivable			
Up to one year		1,931,374,657	1,526,385,903
1 to 4 years		532,088,212	197,417,883
More than four years		585,908,130	580,148,377
	38.1	<u>3,049,370,999</u>	<u>2,303,952,163</u>

The Company establishes policy for provision for impairment (Refer note 3.9.1 to the financial statements) that represents the estimate of incurred losses in respect of trade receivables. According to the impairment policy established, customers are reviewed individually to measure the impairment loss. Please refer note 18.1 to the financial statements relating to trade receivables and provision for impairment loss.

38.1.3 Other Financial Assets

Credit risk arising from other financial assets of the Company comprises deposits held with banks. The Company's exposure to credit risk arises from default in meeting contractual obligations of the contractual parties, with a maximum exposure equal to the carrying amount of these financial instruments. The Company manages its credit risks with regard to these financial instruments by mainly placing its fund with state banks and credit rated banks.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

38.2 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due under both normal and unexpected conditions without incurring unacceptable losses.

The Company monitors financial assets and liabilities and prepares the forecasted operational cash flows monthly. Annual budget is prepared in each division to monitor the divisional performance. The management monitors the both monthly forecasted operational cash flows, annual budget and liquidity requirements to ensure the Company has sufficient cash to meet operational needs.

The following table depicts the Company's financial assets and liabilities maturity analysis as at 31 March 2019 based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial Assets and Liabilities	Carrying Amount Rs.	6 Months or Less Rs.	6-12 Months Rs.	More than 1 Year Rs.
Financial Assets				
AFS financial assets	13,658,404	-	-	13,658,404
Held to maturity investments	143,997,433	143,997,433	-	-
Short-term investments	24,107,923	-	1,890,429	22,160,476
Trade receivables	3,049,370,999	3,049,370,999	-	-
Other receivables	126,199,148	55,308,048	70,891,100	-
Cash and cash equivalents	479,417,164	479,417,164	-	-
	<u>3,836,751,071</u>	<u>3,728,093,644</u>	<u>72,781,529</u>	<u>35,818,880</u>
Financial Liabilities				
Trade payables	1,161,351,942	1,161,351,942	-	-
Other payables	456,910,493	302,410,075	4,980,684	-
	<u>1,618,262,436</u>	<u>1,463,762,017</u>	<u>4,980,684</u>	<u>-</u>

38.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which will affect the Company's income or the carrying value of holdings of financial instruments.

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

38.3.1 Currency Risk

The Company's exposure to currency risk is arising from fluctuations in the value of US Dollar (USD) and other foreign currencies against Sri Lankan Rupee. The Company's functional currency in respect of certain services rendered is USD and other foreign currencies. Certain trade receivables & payables are denominated in foreign currencies.

The net foreign exchange loss that the Company has reported and included in the operating results for the reporting period 2019/20 is Rs.946,996,174/-.

Interest Risk

The Company's exposure to interest risk is the changes in market interest rates relate to short-term bank deposits, treasury bills and term deposits.

The Company has bank balances including term deposits placed with state banks and credit rated banks.

The Company manages interest rate risk by actively monitoring the interest rate movements.

38.4

The Company manages its capital for safeguarding the Company's ability to continue as a going concern in order to provide maximum returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital structure on the basis of the gearing ratio. The gearing ratio is calculated as total borrowings by total equity. Total borrowings include non-current and current borrowings as shown in the statement of financial position. Following table depicts the Company's total borrowing and equity ratio as at 31 March 2019 and 2020

	2019/20	2018/19
	Rs.	Rs.
Class of Capital		
Total borrowings	12,434,283,858	11,502,038,858
Total equity	(1,275,502,117)	(55,663,307)
Gearing ratio (x)	-975%	-20664%

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In accordance with the approval granted by the Cabinet of Ministers on 17/06/2019 on the Cabinet Paper No. 17/1791/129/023 and the decision taken at the Board of Directors of CSCL dated 29/07/19, Cargo Insurance Costs need to be absorbed to CSC and the details are as follows

Financial Year	Amounts (Rs)
2015/16	12,512,559.00
2016/17	21,447,333.00
2017/18	21,502,890.00
2018/19	22,571,307.28

Further, original documents such as VAT invoices, Receipts issued from the Insurers are required for accounting treatments and amounting to Rs.22,571,307.28 has already absorbed in the accounts for the year ended 31/03/2019.

Reimbursement of cargo insurance amounting to Rs.11,416,267.32 has not been taken into accounts due to non-availability of documents required. Other reimbursements of cargo insurance amounting to Rs.44,046,514.55 have been adjusted to the retained earnings of the financial year 2019/20.

CEYLON SHIPPING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2020

40 **Serious Loss of Capital**

The financial statements of the Ceylon Shipping Corporation Ltd (CSC) have been prepared on going concern basis. CSC has incurred a net loss of Rs.1,154,469,108 for the year ended 31 March 2020(2018/19 - Rs. 1,102,839,589). As at reporting date the company's net assets show a negative figure of Rs.1,275,502,117 (2018/19 - Rs. 55,663,307). The above financial results are mainly due to;

- High interest component being paid for vessel's loan
- Depreciation of the two vessels charged for the Statement of Comprehensive Income
- Extraordinary exchange losses charged to the Statement of Comprehensive Income for reason of depreciation the Sri Lanka Rupees against the United States of Dollar
- Earning of the two vessels are in marginal level with compared to daily operational cost except the ships loan installment
- High maintenance costs of vessels

Further the financial performance and financial cost of the repayment of the ships loans will be done in terms of the United States Dollar.

Accordingly, **net worth** (Total equity) of the financial position for the year ended 31st march 2020 shows a negative figure

Further, the net assets value of the company has surpassed the Stated Capital (SLRS 50 Mn.) of the company and there is a serious loss of capital situation in terms of section 220 of the Companies Act No 07 of 2007.

In terms of section 219 of the Companies Act No. 07 of 2007 Directors of the company should discussed this situation and act prudently with the going concern situation of the company.

CSC is a fully Government owned business entity and also ship loans amounting to US\$ 71,910,464.32 have been granted with the Treasury Guarantee which will be continue till 03rd of June 2034.

CEYLON SHIPPING CORPORATION LIMITED

Lead Schedule

ADMINISTRATION EXPENSES

A/c No	Description	2020	2019
50000	STAFF TRAINING	231,180	583,660
50030	CONTRIBUTION TO PROVIDEND FUND	12,918,595	12,100,413
50040	EXECUTIVE STAFF SALARIES	68,820,367	66,303,334
50050	CLERICAL & ALLIED STAFF SALARIES	38,007,197	37,247,950
50060	TEMPORARY & CASUAL EMPLOYEES WAGES	954,631	1,748,642
50080	OVERTIME	11,183,957	10,950,665
50090	BONUS	2,726,942	4,215,000
50110	CONTRIBUTION TO E.T.F	2,582,595	2,420,605
50120	MEDICAL LEAVE PAY	3,773,043	3,456,471
50140	GRATUITY	13,451,893	2,119,321
50170	HARDSHIP ALLOWANCE-NORROCHCHPLAI	1,046,900	1,396,600
60010	OFFICE RENT	18,254,880	15,212,400
60012	OFFICE RENT NORROCHOLAI	-	566,700
60020	PRINTING & STATIONARY	1,622,390	1,972,854
60030	MEMBERSHIP SUBSCRIPTIONS	248,743	2,520,214
60040	NEWSPAPERS & PERIODICALS	-	11,764
60050	INSURANCE	7,907,244	7,845,375
60060	MAINT. OF OFFICE PREMISES & EQUIPME	4,387,206	5,321,571
60070	ELECTRICITY CHARGES -HEAD OFFICE	1,793,010	2,085,394
60072	ELECTRICITY CHARGES -QUARTERS	26,450	-
60080	STAFF WELFARE	4,954,163	6,127,011
60090	SECURITY CHARGES	2,046,959	2,534,925
60110	COMPUTER EXPENSES	813,331	573,845
60140	BANGALOW MAINTENENCE - MODARA	57,692	72,682
60170	TRASLATION CHARGES	190,596	65,261
60210	WATER CONSUMPTION HEAD OFFICE	180,000	60,000
60220	WATER CONSUMPTION - QUARTERS	21,927	-
61010	TELEPHONE CHARGES	2,272,408	2,758,717
61020	POSTAGE & TELEGRAMMES	25,370	27,398
61040	INTERNET / E-MAIL CHARGES	2,580,924	2,834,341
62000	FOREIGN TRAVEL & EXPENSES	610,043	1,288,702
62010	LOCAL TRAVEL	3,464,925	3,564,808
62030	MAINTENENCE OF MOTOR VEHICLES	4,247,781	5,324,386
62040	TRAVELLING & SUBSISTANCE	83,400	63,300
63010	ENTERTAINMENT	190,669	507,053
63020	ADVERTISMENT	2,664,015	1,222,675
63030	COMPLIMENTS & PRESENTATION	-	40,180
63040	EXPENSES FOR GOVERNMENT EXHIBITIONS	72,950	-

63060	ANNUAL REGISTRATION LEAVY	271,860	11,900
64000	DIRECTORS FEES	225,560	250,920
64010	AUDIT FEES	-	-
64020	PROFESSIONAL CHARGES & LEGAL FEES	953,910	2,088,645
64060	TENDER COMMITTEE ALLOWN AND EXPENSES	846,000	383,600
65010	MISCELLANEOUS EXPENSES	104,266	553,315
65030	AGENCY MEETING EXPENSES	-	11,122
65040	DONATIONS	112,500	448,500
65800	DEPRECIATION	5,277,432	5,394,789
65810	COST OF FIXED ASSETS SOLD	-	39,863
70000	BANK CHARGES	3,981,429	3,859,135
70050	STAMP DUTY EXPENSES A/C	50,100	66,200
	LOSS ARISING FROM CHANGES IN ACTUARIAL ASSUMPATIONS	(9,587,688.00)	2,823,945.00
		216,649,745	221,076,152

