

CSCL ANNUAL REPORT & ACCOUNTS 2001/2002

CHAIRMAN'S REVIEW

Whilst the global economic front continued its lackluster growth at the beginning of the year under review, the September 11th disasters in the World Trade Center in New York further aggravated the recession.

In Sri Lanka, the situation was worsened by the coupling effects of the September 11th disaster, where already the July 2001 attacks on the Bandaranaike International Airport badly hampered the economic growth in all sectors.

However, CSCL experienced mixed results of good and the bad effects of all these events affecting the freight market and was able to register a modest profit of Rs.9 Million, mainly on services rendered to the Government of Sri Lanka at a very crucial time, being the core strategic business CSCL concentrated during the year 2001/2002.

The year 2002 seems to be heading towards a global recovery and with the projected recovery in world trade, the maritime sector also seems to be on the road to recovery. As such, CSCL should be looking for new business avenues to venture into during the coming years of 2003 and 2004, before it is too late.

A.I. MACAN MARKAR & CO.
CHARTERED ACCOUNTANTS

PROPOSED AUDITORS' REPORT
TO THE MEMBERS OF SHIPPING CORPORATION LTD.

We have audited the balance sheet of Ceylon Shipping Corporation Ltd., as at 31st March 2002 and the related statements of profit and loss and cash flows for the year then ended, together with the accounting policies and notes to the Accounts.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. Except as mentioned below, we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

QUALIFICATIONS

1. CLAIM AGAINST NATIONAL INSURANCE CORPORATION
FOR RS.272 M

Note 2A to the accounts explains a claim for Rs.272 M as compensation for 50,000 shares in National Insurance Corporation (NIC) absorbed by the Treasury on the conversion of NIC from a Statutory Corporation to a wholly Government owned public Company. Subsequently, the Government divested its holding in the said company. However, the Treasury has expressed willingness to pay only approximately Rs.16 M. No provision has been made for the balance Rs.252 M.

2. CLAIM ON VESSELS PURCHASED RS. 75.8 M

Lanka Rani and Lanka Devi vessels which were purchased to transport passengers between Trincomalee and Northern Ports had been subsequently acquired by the Sri

Lanka Navy on the directive of the Presidential Secretariat . The advance and maintenance expenses of Rs. 75,8 M paid by the company in the years ending 31st March 2000 to 31st March 2002 for these vessels, have been claimed from the General Treasury. But no action has yet been taken by the Treasury to refund this amount. No provision has been made for any part of this balance doubtful of recovery.

3. CONTAINER DEPOSITS PAYABLE RS. 18 M

We are unable to verify the container deposits payable of Rs. 18 M due to the absence of documentary evidence.

Except for the effect on the Financial Statements of the matters referred to in the preceding paragraphs, we are of opinion that, so far as appears from our examination, the Company maintained proper book of account for the year ended 31st March 2002 and to the best of our information and according to the explanations given to us, the said Balance Sheet and related statements of Profit & Loss and Cash Flows and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act..., No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2002 and its Profit and Cash Flows for the year then ended.

EMPHASIS OF MATTER

Without qualifying our opinion in these respect we draw attention to the following :

.1 On the basis of Balance Sheet values the current liabilities exceed the current assets by Ea, 26 M. The company has defaulted payment of instalments on a long-term loan, which was obtained in 1985 for the purpose of repayment of foreign loans obtained to purchase new container vessels in 1980. Hence, the ability of the company to continue as a going concern is dependent on the generation of sufficient revenue to meet its financial commitments. The company has generated a profit since 1999. However, due to losses incurred in the previous years, the Company has an accumulated loss of Rs.1,213M.

.2 Government contributed Rs.370 M in the 3 years Ended 31st March 1997 to 31st March 1999 as equity capital. For these contributions to be formalized, the authorized capital of Rs.50,000,000, will have to be increased.

.3 Group Accounts have not been prepared to consolidate Financial Statements incorporating Lanka Tankers Ltd., Ceylon Shipping Agency (Pvt) Ltd. (Sri Lanka) and Amalgamated Lines Ltd., which are subsidiaries of the company as described in Note 2 to these financial statements.

.4 We have not received direct confirmation of balances as at 31st March 2002 in respect of loan from Sri Lanka Ports Authority Rs. 50 M and amount due from SLPA Rs.5.9 M.

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 Mar 2002.

CXHARTERED ACCOUNTANTS

COLOMBO

22nd September 2003

CEYLON SHIPPING CORPORATION LTD
PROFIT STATEMENT FOR THE YEAR ENDED
31.03.2002

	<u>NOTE</u>	For the period <u>01.04.01 -31.03.2002</u>	For the period <u>01.04.2000 -31.03.2001</u>
Voyage Income		617,995,676	944,889,981
Charter Hire Income		<u>14,834,949</u>	<u>57,762,870</u>
Net Income		632,830,625	1,002,652,851
Voyage Expenses		<u>258,988,997</u>	<u>579,076,799</u>
voyage Surplus	14	373,841,627	423,576,052
Fixed Operating Expenses	15	<u>276,951,192</u>	<u>213,636,368</u>
Operational Surplus		96,890,435	209,939,684
Income from Other Sources	16	<u>40,641,520</u>	<u>34,329,782</u>
Gross Surplus		137,531,956	244,269,467
Management Expenses	17	93,080,595	87,385,038
Interest on Overdraft		57,364,372	54,510,260
Interest on Local loans		14,535,715	14,514,606
Exchange Loss on Trading		<u>12,841,761</u>	<u>18,752,108</u>
Net Profit/(Loss)		(40,290,487)	69,107,455
Profit on Sale of Fixed Assets		2,094,753	4,850,356
OD & Loan Interest Reimbursed by the Treasury		<u>47,614,711</u>	<u>47,543,897</u>
Waiver Granted by SLPA			<u>169,563,105</u>
Net Profit/(Loss)		9,418,977	291,064,812
P & L Balance B/F		<u>(1,222,083,102)</u>	<u>(1,513,147,914)</u>
Balance C/F		<u>1,212,664,124</u>	<u>(1,222,083,102)</u>

ACCOUNTING POLICIES

1. ACCOUNTING DATE

The Financial Year 1.4.2001 to 31.3.2002

2. TRADING PROFIT/LOSS

Results of voyages completed at Colombo during the period are included in trading profit/losses

3. VOYAGES IN PROGRESS

Results of voyages that are in progress at end of the Financial period are accounted separately as incomplete voyages and shown separately under current assets/liabilities. Incomplete income in respect of Colombo outward voyages have been accounted for on a basis consistently with the preceding years.

4. CONVERSION OF FOREIGN CURRENCIES

Current assets liabilities, foreign debtors creditors and cash balances have been converted to Rupees at the rate prevailing at the balance sheet date. However, the income and expenditure items converted to rupees at the time of such transactions are effected. Foreign agent balances have been converted at the rate given in the financial times on a date close to balance sheet date.

5. DEPRECIATION

Depreciation is provided evenly over the expected commercial life of fixed assets as per details given below

ASSETS & THE RATE

Container vessel	10% straight line method on valuation less residual value
Land & buildings	5%
Motor Vehicles, motor cycles & Bicycles	25%
Garage	10%
Computers	20%
Furniture & Equipment	10%
Spreaders	20%

Containers have been fully depreciated

6. PROVISION FOR GRATUITY UNDER THE PROVISION FOR GRATUITY ACT NO. 12 OF 1983

Provision has been made for the employees who have completed five years in their service. In computing the provision, the period of service of employees, including their service with Ceylon Shipping Corporation has been taken into account.

7. PROVISION FOR CLAIMS & CONTINGENCIES

Provision has been created to the extent of 50% of the franchise as in the previous year.

8. INVESTMENTS

The Investments are stated at valuation given by the Chief Valuer of the Valuation Department. The income from these investments is recognized only to the extent of dividends received.

9. BUNKERS AND BONDED STORES

Stocks of Bunkers and Bonded stores on board the vessels and office stationary are stated at cost. Items such as deck and engine stores are written off as and when purchases are made in keeping with the practice adopted by the ship owning companies.

10. TAXATION

No provision has been made in these accounts for income Tax in view of adjusted tax losses of the company.

NOTES TO THE ACCOUNTS

- (1) Operating Profit is stated after charging all expenses including the following :

	Rs.
Auditors' remuneration	340,000
Directors fees	3,600

(2) GUARANTEE REPAIRS RECEIVABLE

Guarantee repairs cost in respect of L/Athula and L/Ajitha amounting to Rs.19.8 M is due from Astilleros Argentino Rio De La Plata.

Although we have made several attempts to recover this amount, this Company has not paid a single installment so far and the recovery of this amount is in doubt. We have made a provision to this in our accounts as at 01.06.1992.

(3) CONTINGENT LIABLITIES & GAINS

- (1) CSCL has guaranteed the following overdraft facilities of CPS Ltd.

Rs. 3 M	-	Commercial Bank of Ceylon Ltd.
US\$100,000	-	- do -

- (2) The other contingent liabilities

(a) K. Lionel VS CSCL

Employee of CSC namely A.M. Sarath has knocked down a man in a road accident whilst riding the M/Bicycle allocated to him by the Corporation. Lionel has filed his action against Sarath and the Corporation. This case is defended by the Insurance Corporation. Case is pending in the District Court.

(b) M/S Venus International VS CSCL

A claim for damages to a shipment of big onions consigned to M/S Venus International .This company has filed a case. The case is fixed for retrial.

CONTINGENT GAINS

(a) CSC VS. Mercantile Maritime Agency Rs.34 M

CSC terminated this agency. The agency withheld the payment of dues to CSC. This matter has been referred to arbitration and an award has been given in favour of CSC and CSC has filed a case to get the above order enforced. The case is pending before the Appeal Court.

(b) CSCL VS Mr. I.W.S.Kumara

Mr I.W.S.Kumara who was an employee of CSCL was sent abroad on a scholarship for studies. He has left CSCL prior serving obligatory period of service. CSCL has instituted this action claiming damages for Rs 545,685.00 for breach of contract. Case fixed for trial or settlement.

(c) CSCL VS Nippon Maritime

The Cheque for Rs 83,144.80 issued by Nippon Maritime Co Ltd for freight has been dishonored. CSCL has filed action for default of payment. Amicably settled to pay in 8 installments have already paid.

(4) RELATED PARTIES

The following companies are subsidiaries of CSCL
Ceylon Port Services Ltd.
Ceylon Shipping Agency (Pvt) Ltd.
Amalgamated Lines Ltd.

Ceylon Port Services carry out ship chandelling services to CSCL in addition to any services required by CSCL. The total services supplies by CPS is amounting to Rs. 7.7 M.

Ceylon Shipping Agency is the marketing arm of the CSCL, which carries out the marketing of CSCL. The income generated by CSA (Pvt) Ltd., from CSCL is Rs. 1.5 M by way of freight commission.

The Amalgamated Lines is defunct at the moment.

JOINTLY OWNED COMPANIES

Lanka Tankers Ltd.

ASSOCIATE COMPANIES

Ceylon Shipping Lines
Ceylon Shipping Agency (Pte) Ltd. Singapore

5. PASSENGER VESSELS

The two passenger vessels, purchased during the year 1999 on the directive from the Presidential Secretariat, were handed over to the Sri Lanka Navy, upon arrival at Sri Lanka, on the direction given by the Presidential Secretariat.

These two vessels were named MV Lanka Rani and MV Lanka Devi. MV L/Rani was destroyed by terrorists.

The Treasury undertook to finance the purchases of these vessels. CSCL spent approximately Rs. 76 million as part of 10% advance and delivery cost of the two vessels. These two passenger vessels continued to remain with the Sri Lanka Navy and CSCL did not receive any benefit by way of revenue. They were fully utilized by the Sri Lanka Navy and therefore, the company has not treated them as CSCL assets. CSCL claims the amount of Rs. 76 million spent on the vessels on behalf of the Treasury.

CSCL had insured MV Lanka Rani at the time of purchase for operations in the sea of the North and East. Consequent upon the terrorist attack CSCL lodged a claim with the underwriters and which was declined by them. Currently this claim is under review by lawyers appointed in this regard by CSCL.

6. FUNDS LYING IN SHIPPING EXTERNAL ACCOUNTS BELONGING TO OWNERS

RS 12.4M has been lying in shipping External Accounts since 1990 as given below with Peoples' Bank International Division in favour of owners which are neither assets nor liabilities of CSCL

Mitsui Osk Lines Ltd	A/C	150941	640,028.56
China Occan Shipping Co		150953	379,226.06
Pakistan National Shipping Co		150965	181,737.41
Iraqi ST/En for Maritime Transport		150977	168,444.20
Neptune Orient Lines Ltd		150989	808,321.00
Iranohind Shipping Co		150990	18,931.76
Australian Lines		151003	265,715.53
Iraqi Oil Tankers Ltd		151015	12,614.68
Unicorn Lines Ltd		151027	453,482.34
Bounty Lines		151039	280,995.90
Casual Callers		150928	<u>9,255,779.74</u>
			<u>12,465,277.18</u>

7. POST BALANCE SHEET EVENTS

CEYLON PORT SERVICES LTD

After the Balance sheet date 31.03.02 and in the financial year 2002/03, there was a drastic change in the management of CPS with the appointment of 04 Directors to the Board by Ceylon Shipping Lines Ltd, after a long drawn battle over shares of the company. Though the share problem remains unsolved CSCL filled the maximum capacity by appointing 3 Directors to the Board as permitted by the articles of the company, At Present CSCL has 18% of shares while the balance 82% of shares are still with CSL Ltd.