

North Sea Ltd Annual Report

For the period 1st April 2002 – 31st March 2003

1. Introduction

Formation of North Sea Ltd

North Sea Ltd is a Company formed in July 2001 on a Cabinet approval to succeed and carry on the business conducted by Cey Nor Foundation Ltd., in the Northern Province. It is fully owned by the Govt. of Sri Lanka with the Treasury being the entire share holder. This Company was brought under the administration of the Ministry of Development Rehabilitation, Reconstruction of the North and Tamil Affairs North and East at the inception and in the year 2002 the function of this Company was not brought under any Ministry when the new Cabinet was formed. However, Rs.3Mn. was released by the Ministry of Enterprise Development Industrial Policy and Investment Promotion for the management of the activity of this Company from funds allocated for Cey - Nor in North. Unfortunately there was no financial provision for the year 2003 and the Company has to manage its activities without any financial support of the Govt. Hence, the activities were limited and carried out with the income generated by the manufacture of fishing nets with available resources.

The major functions of this Company are:-

1. Production of fishing nets
2. Production and repairs of fishing crafts
3. Providing facilities for preservation of fish and other sea foods
4. Development of infrastructure facilities for the fishing community

During the period under review only fishing nets were manufactured at the fishing net factory located at Kurunagar in Jaffna Municipal council area. The functions other than the production of fishing nets listed above could not be carried out as the Boat Yard at

Karainagar in Jaffna district was not permitted for any activities as this area is within the high security zone of the naval base at Karainagar. Further, the Ice factory and part of the building and machineries were devastated during the civil war that existed during the past 20 years in this region.

2. Organization

Vision:

Be of excellent service to the fishing community.

Mission:

Providing fishing equipment and support services to the fishing community in the North at affordable price and uplift the socio economic status of the fisher folk.

Management:

There was no Board of Directors for the period under review and the activities were managed and supervised by the Chairman assisted by the Accountant, and other support staff. The Board of Directors in the year 2001 appointed M/S Thilakaratnam & Co., for the auditing of the accounts and this Company has audited the accounts for the above period.

3. Performance:

Though the fishing net factory and the boat yard at Kurunagar were the two institutions through which the activities of the North Sea Ltd., were carried out, the boat yard at Karainagar could not function due to reasons stated in Para 1 above. The Net Factory at Kurunagar functioned during this period with limited number of staffs and resources.

The non-availability of Govt. funds for rehabilitation of the affected activities contributed largely for the decline in the manufacture of nets and distribution to various places at the time of demand.

A. Sales:

Although the sales increased three fold than that of 2001/'02 the high cost of production resulted in a gross loss of Rs: 1.2 Million during the above financial period. However, due to proper cost control system, this was reduced by 5.5 percentage.

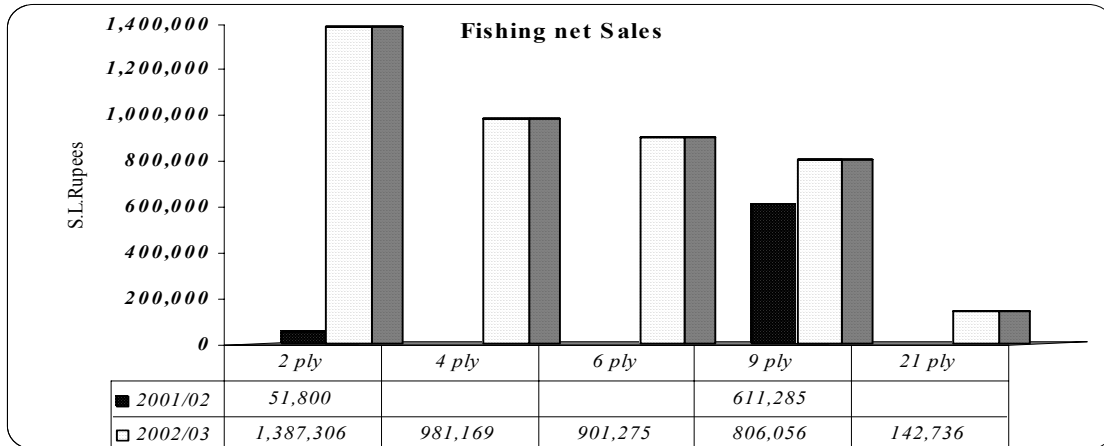
A. Income Statement is as follows:

Details	2002/2003	2001/2002
Revenue	4,528,283	1,134,309
Cost of Sales	5,757,514	1,504,754
Gross Profit/(Loss)	(1,229,231)	(370,445)
Add:		
Other Incomes	3,005,628	
Less:		
Distribution Expenses	155,830	
Factory Expenses	1,557,204	525,977
Administration Expenses	1,124,246	880,744
Profit / Loss From Operation	(1,060,883)	(1,777,166)
Finance and Others	4,911	222,569
Profit / Loss Before Tax	(1,065,794)	(1,999,735)

The following reasons could be adduced for the increase in the cost of

production.

- Purchase was made from time to time in small quantity.
- Inadequate funds for investments.
- Irregular supply of raw material.
- Out dated low out put machines.
- Single shift production.

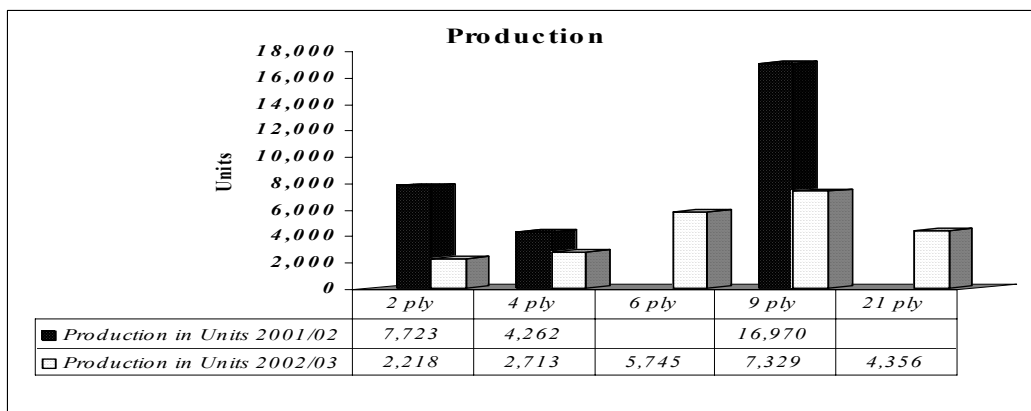


B. Production:

Five machines can be used for low 2 ply to 6 ply nets, and one can be used for high 9 ply to 21 ply nets. Weight of each range from 0.65 Kg to 9.2 Kg and market price of each is Rs: 450.00 to Rs: 5,400.00. While the monthly market demand is 40 Metric tones, our optimum production capacity is 4.5 Metric tones per month. Unfortunately, during the financial year it could manufacture only 3 Metric tones of annual production,

The reasons are as follows:

1. Inadequate funds and irregular supply of raw material
2. Frequent break down of the rehabilitated machineries
3. Irregular power supply



C. Human Resources:

a. Employment:

There are forty two employees belonging to various categories and the particulars according to age group are given below which consists of twenty permanents and twenty one casuals respectively.

Human Resource age analysis is as follows as at 31st, March, '03

Age groups (years)	Corporate Management	Executives Staffs	Staff & Allied	Officer Technician	Operators officers	& Total
Above 60						
51 - 60		1	1	24		28
41 - 50				7	4	11
31 - 40		1			1	2
21 - 30					2	2
Below 20						
Total	1	2	1	31	7	41

Minor

✓ Human Resource Strength:

b. Human resource development:

It could be observed on the above table that more than 50 % of the technical staff is in the age group of 51 – 60 and within the next two or three years the senior technicians will reach the age of retirement. Therefore, junior level officers have to

As at 31 st March	2001/02	2002/03
Corporate Management	1	1
Executives	3	2
Staff Officer & Allied	1	1
Operators & Technician	34	31
Minor officers	7	7
Total	45	42

be

trained to fill the gap. Further it may become necessary to recruit technical persons to fill the vacancies that will be created by the retirement of senior officers.

D. Staff as at 31st March 2003:

➤ **Head office:**

I. Chairman	:	01
II. Accountant	:	01
III. Peon	:	02

➤ **Factory:**

I. Executive Assistant	:	01
II. Store Keeper	:	01
III. Electrician	:	01
IV. Mechanic	:	02
V. Head operator	:	01
VI. Machine Operator	:	13
VII. Stretching Operator	:	04
VIII. Dye House Operator	:	04
IX. Mendes	:	03
X. Fiber Glass Worker	:	02
XI. Lathe man	:	01
XII. Security Guards	:	04
XIII. Peon	:	01

E. Machineries:

1. Netting Section:

Six netting machines are in operating condition and seven netting machines are beyond economical repair.

2. Twisting Section:

One machine is working, and other one is need repairs. These have a capacity to manufacture 2,500 Kg per month. Three are beyond economical repairs.

3. Finishing Section:

Lengths stretching, Depth stretching machines, Boiler, Centrifugal separator, Normal pressure dyeing machine are in working condition. This section needs further improvement.

As the machineries are 23 Years old, the efficiency was poor and frequent break downs affected the on time production.

4. Future Strategies:

Northsea Ltd has a bright marketing opportunity in Jaffna. In the early 1980's; fishing activities were major economic source of livelihood for more than 22,500 families in the Jaffna peninsula. The annual catch of the fish in the region was 48,000 tons, or 26% of Sri Lanka's, total sea food harvest, as well 57% county, total dry fish and allied sea food processing supply. Right now we have these opportunities in the same region. According to Fisheries Department research result, there is a big market for the fishing nets in the Jaffna District, and the annual demand is approximately 130,000 units of low

Property, Plant and Machineries	
Factory	
Buildings	8,700,000
Plant & Machineries	7,317,456
Furniture & Fittings	110,000
Scooter	98,750
Computer	Gift
Equipments	45,450
Head Office	
Computer	118,561
Photo copy machine	101,250
Equipments	40,854
Furniture	10,350
Total	16,542,671

ply, weight about 480 Metric Tones, worth in the Jaffna market price approximately Rs: 185 Million.

Details	Types of Twine			
	2 ply	4 ply	6 ply	9 ply
Demand in Jaffna(Qty)	49,940	16,535	19,102	48,164
Supply of Northsea Ltd 2002/03(Qty)	3,300	1,400	1,600	10,750

1. Increasing Production Capacity:

By utilizing the machines to full capacity we could achieve optimum production of 5 Metric Tone nylon fishing nets monthly

2. Rehabilitation and reconstruction:

By rehabilitation and reconstruction of the twisting section buildings and machines, the company could manufacture the twine at low cost.

3. Purchasing of New Machines:

Purchase of new model two netting and one twisting machines with capacity at double speed will reduce the over head very effectively

4. Establishing appropriate sales team:

Expansion of sales to Vanni region through appropriate working arrangements

5. Renovating the Karainagar Boatyard:

Manufacture the 18 ½' Flat bottom boats and 17 ½' Clinger types of boats, at low cost rather than the private sector. As well manufacture FRP allied products.

6. Providing support services:

- Rehabilitate and reconstruct the damaged Ice Factory and Jetty at Grunagar.
- Install cool rooms in the fishing villages to protect their peak harvest of fishing.
- Provide rest rooms and sales outlet with canteen facilities at Grunagar.

7. Corporate Planning:

Draw an effective and appropriate corporate plan. so that the Board of management will ensure that Company is driven towards the exact missions for effective and efficient discharge of the responsibilities.

5. Constraints

The factory building, Ice Plant, and office building need immediate repairs while some of the out dated machineries need replacement and other machineries need extensive repairs. There are no vehicles in this Company for the use of the staff and for purpose of marketing arrangement. Lack of Govt. funds during this period has adversely affected the activities, thus, there was no funds for development of this industry. Had the boat yard at Karainagar been made available it would have helped the Company to recommence the activities related to the manufacture of boats, fishing vessels, and crafts.

6. Opportunities

The annual production of fish in this region is 26% of Sri Lanka's total production. According to information there is an increase in the marine sector by 7.2% due to the increase fishing activities in the Northern and Eastern Costal areas with the cessation of hostilities after the signing of ceasefire agreement between the Govt. and the LTTE. This increase could be further improved and developed if suitable boats, fishing crafts and fishing nets are made available at low cost to the fishermen. The re-opening of the A9 road has paved the way for quick transport of the fish production from North to South. The fishermen are encouraged and assured of good marketing avenues and price for their harvest.

7. Acknowledgement:

I would like to thank the efforts of the creative team of officers and technicians and operators, at all levels, for their unstinted support during the difficult period of time and the Auditors M/s Tilakaratnam & Co, for the completion of the audit. And I also thank the

share holder, the Secretary to the Treasury for valuable assistance and look to his continued support in the future.

NORTHSEA LIMITED
YEAR OF ASSESSMENT 2002 / 2003

Name of Business : Northsea Limited

Nature of Business : Manufacturing and Selling Fishing Net

Address : 2nd Floor,
244, Galle Road
Colombo -4

Directors : Mr.K.Paramalingam
Secretary , Govt. Treasury.

Period : 01. 04. 2002 To 31. 03. 2003

Adjustment Statement for Income Tax Purposes

Net Profit / (Loss) as per Accounts		(1,065,795)
Add: Disallowable Expenses		
Depreciation	845,246	
Penalty Paid:		
PAYE	769.50	
ETF	223.73	
	846,239	(1,065,795)
Capital Allowances:	<u>Cost/Value</u>	<u>Rate %</u>
Building (2nd year)	8,700,000.00	6 2/3
Plant & Machinery (2nd year)	7,317,456.25	(balance)
Furniture & Fittings (2nd year)	110,000.00	25
Scooter	98,750.00	-
Equipment (2nd year)	3,571.00	50
Electrical Fittings (2nd year)	4,340.00	50
Equipment - HO (2nd year)	260,665.87	50
Furniture - HO (2nd year)	10,350.00	25
Equipment (1st year)	5,400.00	50
	4,395,804	
Adjusted Loss		(4,615,360)

AUDITORS' REPORT TO THE MEMBERS OF NORTHSEA LIMITED

We have audited the Balance Sheet of Northsea Ltd., as at 31st March 2003 and the related Statement of Income, Changes in Equity and Cash Flows for the year then ended, together with the accounting policies and the Notes thereto.

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. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion:

In our opinion, except for the effects of the adjustments arising from the matters referred to in paragraphs 2.1.2, 2.2, 3.0, and 4.0 of this report, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2003, and to the best of our information and according to the explanations given to us, the said Balance sheet and related Statements of Income, Changes in Equity 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 2003 and of its Loss and cash flows for the year then ended.

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 31st March 2003.

Chartered Accountants

Colombo, 18th August 2003.

**NORTHSEA LIMITED
SIGNIFICANT ACCOUNTING POLICIES**

1.0 General:

1.1 Accounting Convention

The Balance sheet and the related Statements of Income of Northsea Limited are prepared in conformity with the generally accepted accounting principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, applied consistently on a historical cost basis.

1.2 Format of Accounts, prior year figures and Phrases

Previous year's figures and phrases have been rearranged wherever necessary to conform to the current year presentation.

Post Balance Sheet events

Since the Balance Sheet date there have been no events which could materially affect the state of affairs of the Company.

2.0 Assets and bases of their valuation

2.1 Property, Plant and Equipment

The cost of Property, Plant and Equipment is the cost of purchase or construction together with any incidental expenses thereon.

Property, Plant and Equipment are stated at cost or valuation less accumulated depreciation to date.

Depreciation has been provided on Property, Plant and Equipment at the rates given below.

No depreciation has been provided in the year of purchase and a full year's depreciation will be charged in the year of disposal, except in the case of Plant and Machinery where full year's depreciation is charged in the year of purchase and no depreciation will be charged in the year of disposal. This variation is to compute the appropriate cost of goods produced.

Fixed Assets are depreciated on Straight Line Method.

Rates applied are as follows:

Building	02.0%
Equipment	25.0%
Plant & Machinery	07.5%
Furniture & Fittings	20.0%
Motor Vehicle	25.0%
Computer	25.0%
Electrical Fittings	25.0%

2.2 Inventories

Stocks are valued on FIFO basis calculated on Raw material purchase value.

2.3 Trade and other receivables

Receivables are stated at the amounts estimated to be realised.

2.4 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, savings accounts and demand deposits which are readily convertible to known amounts of cash and subject to insignificant rise of changes in value.

3.0 Liabilities and Provisions

3.1 Liabilities

All known liabilities as at the Balance Sheet date have been included in the Financial Statements

3.2 Contingent Liabilities

There are no contingent liabilities existing at the Balance Sheet date.

4.0 Income Statement

The Company's Profit is arrived at after charging all expenses incurred in the day to day operations of the business, and in maintaining Fixed Assets in a State of efficiency.

5.0 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

6.0 Revenue Expenditure

The Profit earned by the Company as shown in the Income Statement is after providing all known liabilities and for depreciation of Property, Plant and Equipment.

NORTHSEA LIMITED OBSERVATION AND COMMENTS

1.0 Financial Results

1.1 Gross Profit / (Loss)

The Trading results for the year ended 31st March 2002 show a Gross Loss of Rs.1,229,231.25 as compared with the deficit of Rs.370,445.26 in the preceding nine months thus disclosing an increase in deficit of Rs.858,785.99 in the Financial Results during the year under review.

An increase in sales Rs. 3,393,974.00 during the year has resulted in reduction of cost per unit and consequently reduced the Gross Loss percentage from 32.66% to 27.15%.

Once again we like to stress the fact that the reason for the Gross Loss was mainly due to lack of cost control and pricing policy. In an open market where the prices

are competitive only way of maximizing profits is by reducing the unit cost of products.

To achieve this we recommend the following remedial steps:

1. Implement Costing System and effectively organize to ensure cost control through a systematic and timely presentation of the product costs.
2. Select and concentrate producing more the products that yield more profits.
3. Increase Sales Promotion to effect more sales. Increase in sales will cause increase in production which will result in reduction of cost per unit. During the year under review Rs.3, 738.00 was spent on advertisement. This is not adequate to produce good result.
4. Implement an effective Performance Appraisal System, in order to minimize cost and maximize productivity for efficient cadre management. Promotion and payment of incentives and increments should be based on the result of the appraisal.

1.2 Net Profit / (Loss)

The Income Statement for the year under review show a Net Loss of Rs.1,065,612.64 as compared with a loss of Rs.1,999,734.99 in the preceding year thus showing a decrease in Net Loss of Rs.934,122.35.

During this year the Company received Rs.3,000,000.00 from the Government as Grant towards its recurring expenditure. This amount has been shown as income in the Income Statement for the year thus reducing the Company's Net Loss from Rs.4,065,794.64 to Rs.1,065,794.64. Therefore the decrease in net loss of Rs.933,940.35 as shown in the above paragraph cannot be considered as favourable.

2.0 Comments on Accounts

2.1 Property, Plant and Equipment

- 2.1.1** Building, Plant and Machinery and Equipment acquired from Cey- Nor Fish Net Factory had been taken into accounts at the values certified by the Valuation Department. At the request of the Chairman of the Company the Valuation Department has submitted an amended valuation

report dated 08. 01. 2003. The variations in the reports are as are as follows:

Plant & Machinery	Valuation on 8/1/2003	Valuation on 30/5/2003	Variation
Netting Machines:			
6 Nos. Netting Machines	2,670,000		
2 Nos. Machines			
Repairable	500,000	3,300,000	
5 Nos. Netting Machines			
Unserviceable	100,000		
Total	3,270,000	3,300,000	(30,000)

Twisting Machines:

Twisting Machine			
Scrap Value	10,000	Nil	10,000
Net Variation			(20,000)

Entries had been passed in the books to give effect to this variation by crediting Asset account and debiting Govt. Treasury account.

2.1.2 The Property, Plant and Equipment of the Company include a Computer with accessories gifted by the Ministry of Development, Rehabilitation and Reconstruction of North, but no value has been placed for the computer in the books. Since the computer is in use it is considered accounting prudence to place an economic value to the computer and enter in the books.

2.2 Inventories:

Observation and comments on the Physical verification of Stocks at the Gurunagar Factory

2.2.1 We observed the following discrepancies in the finished goods:

Items	Bin Card Balance	Physical Count Balance	Excess/ Shortage
9 Ply 10" 8 x 500	35	60	25
2 Ply 2" 62x 1500	56	66	10
2 Ply 2 ^{1/2} " 62 x 1500	73	72	(01)

Except the above mentioned three items all others were found to be in order tallying with the bin card balances.

2.2.2 Our verification of the records and analysis of issues and receipts of the Items mentioned in (2.2.1) above revealed the following:

	9 Ply 10" 8 x 500	2 Ply 2" 62 x 1500
Details	Nos.	Nos.
Stock on 1- 4 - 2002	258	56
Production during the year	1,109	-
Total	<u>1,367</u>	<u>56</u>
Sales during the year	<u>1,310</u>	<u>56</u>
Balance Stock	57	56
Physical Count	<u>60</u>	<u>66</u>
Excess	<u>3</u>	<u>10</u>
Bin Card Balance	<u>35</u>	<u>56</u>

It is evident from this analysis that:

a. he Bin Card of 9 Ply 10" had not been maintained properly.

b. During this year there was no production and sale of 2 ply 2".

Therefore the excess of 10 numbers is an error brought forward from the previous year 2001/2002.

This clearly indicates that physical stock count has never been done before.

2.2.3 Alien stock

We observed 159 Nos. of Nets in a huge bag wide open lying at the centre of the Store. We were made to understand that they are the remaining nets belonging to Cey-Nor Ltd. After giving subsidy to the refugees. Nevertheless we were not satisfied with the explanation given for the stock to remain at the centre of the store with the bag wide open, as if they are products of "Northsea Ltd" either just received from the Production Department or awaiting for issues. Furthermore we found that there was no record maintained pertaining to this transaction. This was duly informed to the Chairman for necessary action.

2.2.4 Stores Maintenance

The maintenance of the Store and arrangement of goods are not satisfactory. Although huge racks with ample storage facility are available in the store this facility has not been utilized properly. No precaution has been taken to avoid nets of different specification getting mixed up. We found nets of different specification being piled up side by side without any partitioning or gap between them. Furthermore we observed that the nets are simply piled up without being arranged by rows and columns, thus causing hardship to count the stock without pulling them down from the rack.

2.2.5 Stock Identification

Although nets of different specifications are produced, after packing, it is cumbersome to differentiate them according to their specification. We observed uniformity in net's colour, packing bag, labels and tying thread. Only source of identification is the specification of the net written on the label. Any mistake made in writing the Specification on the label will go unnoticed. For an effective stock control nets of different specification should have clear identification marks.

3.0 Trade and Other Receivables

This include Rs.613,550/- being the sale proceeds of 707 Nets sold to the Minister of Development, Rehabilitation and Reconstruction of the North and Tamil Affairs North and East by Company's Sales Invoice No.017 dated 30. 11. 2001. This amount still remains unsettled despite repeated reminders sent to the former Minister concerned. Since the reminders were not acknowledged it is high time the Directors to consider necessary steps either to recover the money or to write off.

4.0 Petty Cash – Factory

We observed the following discrepancy in the Factory Petty Cash Book:

Balance carried down on 31. 03. 2002	8,217.62
Balance brought forward on 01. 04. 2002	<u>4,417.00</u>
Cash Shortage	<u>3,800.62</u>

A thorough examination of the books and vouchers is necessary to identify the cause and nature of this discrepancy and to pass the rectifying entries, until then it is kept in suspense.

5.0 Share Capital

We observed that the Company has been in operation for the past one year and nine months without issued share Capital. On enquiry we were informed that steps have already been taken to issue shares.

6.0 General

6.1 Telephone

The Telephone connection at the Factory is still in the name of previous subscribers "Cey-Nor Development Foundation Ltd.". So far no action has been taken by the management to change the subscriber's name.

6.2 Insurance

We found that the company's Assets worth nearly 20 million have not been insured. Hence the Company is carrying a heavy risk of total loss in case of any damage.

6.3 GST / VAT

The Company has not complied with the requirements of the Goods and Services Tax Act No.34 of 1996 and National Security Levy (Amendment) Act No.21 of 1999.

6.4 Board Meetings

Board Meetings constitute the highest decision-making mechanism in an enterprise. It is the most important and very essential forum for taking strategic decisions on capitalization, corporate strategy objectives, etc, and to review debate and formulate policies and strategies based on Management Information Report.

On perusal of the Company's Board Meeting Minute Book we found that the board of Directors never met during the financial year under review. This is very unsatisfactory and reflects very badly on the Company's affairs.

6.5 Corporate Plan and Budgets

The company does not have a Corporate Plan or Budget to show its strategies regarding its future direction and its management policies for the future period.