Mercantile Ports & Logistics Limited

(Registration No.52321)

Annual Report & Accounts

for the Year ended 31 December 2017

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Chairman's Statement

2017 was a busy year for MPL, with work continuing uninterrupted throughout the year. The Company achieved the key construction milestone of completing piling for its 400 metre jetty in November and then, by the end of the year, had three berths capable of receiving vessels. Since the year end, progress has continued, with more than 300 metres of the 400 metre general cargo jetty completed in all respects and the civil construction works completed on an additional 200 metres dedicated to break bulk berth, all of which, when completed, will bring the final quay length of the all-weather facility to 1,000 meters.

The Company was pleased to announce post the period end that it had received notification under section 7 of the Customs Act 1962 of the appointment of KPL's Karanja Terminal as a customs port. The Board considers this to be the major development in the customs clearance process and is consistent with the Board's view that receipt of final customs clearance is now a formality. This notification is publicly available and is, therefore, expected to be helpful in the discussions with future customers. Final customs approval is expected to be received soon, with revenue anticipated to be generated during August. This news was accompanied by confirmation that its wholly owned subsidiary, Karanja Terminal Port and Logistics Limited ("KTPL") had received notification from the Maharashtra Maritime Board (MMB) that KPL's lease over the land had been increased from 30 to 50 years. In addition, the MMB has also granted the Company the approval to develop an additional 200 acres of land and 1000 metres of waterfront.

The Board was pleased to announce two binding contracts during the year and the Company's marketing efforts have continued in the early part of 2018, with a further Memorandum of Understanding (MoU) announced and negotiations continuing with numerous potential end users. The Company expects to make further announcements in relation to new contract wins during the current year.

The Company's board evolved during the year, with the appointment of Andrew Henderson as CFO, who has been building the accounting team as the Company prepares to be revenue generating. In addition, 2017 saw the appointment of John Fitzgerald as a new non-executive Director as Peter Jones and James Sutcliffe retired. We have welcomed John's experience and contribution to the Board and thank Peter and James for their efforts that saw the project come from a concept to being one of the few privately financed infrastructure projects in India.

As a result of the date of revenue receipts being later than anticipated, the Company slowed down the level of expansion activity on site, particularly in the expensive work stream of land reclamation. As at today's date, the Company has reclaimed some 95 acres of land, with a further 20 acres worth of material being on site and currently being used for surcharging. This is significantly more than the 50 acres of back up land required to enable the facility to commence operations.

As at 31 December 2017, the Group had cash resources of £5.4 million and £21.1 million of undrawn banking facilities. During the year, in order to co-ordinate better with the Company's revenue profile, the Company and its principal bank, Canara Bank, amended the terms of the current Term Loan Facilities to extend the period of the banking facilities to March 2027 and move back the first quarterly repayment from December 2018 to June 2020. The Company will continue to review its future debt refinancing options. As has been widely reported, the banking sector in India has been experiencing difficulties and is undergoing reform. One of the consequences of this has been that the Indian public sector banks have imposed extra levels of bureaucracy, leading to unpredictable timing or delay in the receipt of funds by their customers, and the Group is not immune from this.

The Group continues to be in compliance with the terms of its banking facilities and the banking issues in India have not had an impact on the construction of the Facility to date. However, the Board is keen to ensure that the general situation with the Indian banking sector and any delay to the drawdown of the Company's banking facilities in the future does not have any impact on the Group. As such, I have agreed that I will personally provide a loan facility for 12 months to 30 June 2019, for an amount consistent with the undrawn existing bank facility, to ensure that there is no interruption to work on site should this be the case. This is in addition to the personal guarantee I have provided over the full debt facility.

The Company was pleased that the impairment review performed indicated that the Value in Use of the port, once completed, has been calculated as being higher than the final expected cost of the completed port. With the recent announcement of the leases extension beyond 2060 we were able to present a stronger internal valuation, with the new lease extension allowing us to model an additional 20 years of positive cash flows. We believe that the lease extension is a significant endorsement from the key government organisation responsible for the maritime economy and illustrates the confidence that the MMB has in MPL. The decision of the MMB comes on the back of significant interest in the new facility from a wide range of shipping and cargo businesses. Prime Minster Modi’s government Sagarmala initiative supports port led development as a key driver of Indian economic development and MPL is proud to be an important contributor to the delivery of the Prime Minister's flagship policy. This was further supported with the announcement of progress with customs clearance and the reassurance it provides in being able to forecast revenue inflows more accurately.

Management are confident that they will be able to optimise MPL’s capital structure in the next 12 months, including securing access to debt capital on better terms. The Company believes that it will achieve this based on the majority of construction risks having been removed and all regulatory risks having been successfully dealt with. In addition, the company has signed contracts with end users and a healthy pipeline of customers that have signaled to move from MoU to documentation stage.

Conclusion

2017 was a year of consolidation and preparing for the future in terms of building the port, the management team, securing first customers and developing a healthy pipeline to deliver on the promise of a professional and profitable port and logistics facility.

So far in 2018, we have seen further progress made and the recently announced lease extension was a significant boost for the Company and further support for our long-term growth plans. The slight extension to the timetable as a result of the prolonged customs approval process has been frustrating. However, Karanja lies at the heart of India's trading gateway and, with India’s macro story still conducive to Karanja’s growth, once operational, the Board sees enormous opportunities available to the Company. Everyone involved in this project recognises the strategic ambition of both our government and our customers. We’re proud to be working with all our stakeholders to deliver on this vision.

Nikhil Gandhi

Executive Chairman

Mercantile Ports & Logistics Limited

29 June, 2018

DIRECTORS' REPORT
for the year ended 31 December 2017

The Directors' ("Directors") of MPL present their reports and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Status

The company was incorporated and registered under The Companies (Guernsey) Law, 2008 with registered number 52321 on 24 August 2010. On 7 October 2010 its ordinary shares of no par value were listed on the London Stock Exchange's Alternative Investment Market ("AIM").

The Company's subsidiaries are Karanja Terminal & Logistics (Cyprus) Ltd, Karanja Terminal & Logistics Private Limited and Mercantile Ports (Netherlands) BV incorporated in August 2010 in Cyprus, May 2010 in India and the Netherlands in April 2017 respectively.

Principal Activity

The principal activity of the Company is to act as a holding company established to develop, own and operate ports and logistics facilities.

Directors

A list of directors' who served during the year is shown in note 18(b).

Statement of Directors' Responsibilities

In accordance with The Companies (Guernsey) Law, 2008, the Directors are responsible for preparing financial statements for each financial year, which give a true and fair view, in accordance with applicable law and regulations. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures noted in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are

responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Auditor

Grant Thornton UK LLP has expressed its willingness to continue in office as auditors, and a resolution to re-appoint Grant Thornton will be proposed at the forthcoming annual general meeting. Each of the directors at the date of approval of the financial statements confirms that:

- so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- he has taken all steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Signed for and on behalf of the Board on 29 June 2018

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Nikhil Gandhi, Chairman

Strategic Report

I. Principal Business Objective

The Group's principal objective is to develop ports and logistics facilities in India and its sphere of influence. The Company's first project is being developed at Karanja in close proximity to the city of Mumbai and Jawaharlal Nehru Port Trust (JNPT), which is India's largest and busiest container handling port.

Our Vision

Our Vision is to be a key link in the global logistics chain by creating world class, state-of-the-art maritime and logistics infrastructure to support India's and other emerging countries burgeoning trade demands and to create value for all our stakeholders. To achieve these aims we have to identify sustainable growth opportunities and drive innovation in our sector.

We aim to achieve this by building three key principal values:

1. Being known as a trusted brand that can be relied on by our customers and shareholders.

2. Help in the growth of India by providing a much needed infrastructure service.

3. Drive productivity, efficiency and safety improvements in the infrastructure sector through continuous innovation.

Our Mission

Our Mission is to have a world class approach to business, where integrity and innovation are at the heart of our business philosophy of exceptional customer service culminating in sustainable value creation for all our stakeholders.

Our Strategy

As we work on completing our first facility at Karanja we have been driven by our strategic objectives which have been refined in the year to focus specifically on the completion of Karanja. These include:

- Establish efficient port operating practices.
- To keep abreast of all policy developments relating to trade, environment, labour laws etc. that may have any impact on the business potential of the ports and allied sectors.
- To maintain strong relationships with key government departments including inter alia, shipping, ports and finance environment.
- Maintain a strong in-house project management team to ensure timely completion of projects within budget.
- Engage in intense & continuous marketing of the facilities to optimise capacity utilisation and maximise revenues and profits.

Our Maiden Project - Karanja Creek

Our first infrastructure project involves developing one of India's largest private port and logistics operations sites in Karanja Creek, near Navi Mumbai.

The Multi-purpose site is being developed over 200 acres of land with a sea frontage of 1,000 meters. The port is expected, when complete, to encompass:

- 1,000 meters of quay serviced by 8 cranes.
- 200 Acres of back up area for cargo storage.
- Capable of handling vessels up to 5,000 DWT.
- First mile - last mile connectivity.
- Ability to handle containers and break bulk cargoes including pulses, fertilisers, steel, gypsum and cement amongst others.
- 5 meter draft.

In addition the port will handle specialised defence cargos, offshore vessels and roll on/roll off cargos.

Location

Our port is strategically positioned to take advantage of the growing marine infrastructure. Karanja is a high growth industrial zone in the heart of Navi Mumbai, approximately 7 nautical miles from JNPT, India's largest and busiest container port.

Karanja port enjoys excellent first and last mile connectivity, to state and national highways, NH4B, SH54, SH104 and NH17 and is located approximately 3 km from the upcoming Uran railway terminal, opening up to one of the world's largest growing domestic markets.

Connectivity and locational advantages will be further enhanced in the near future with the development of marquee projects, such as:

- The Mumbai Trans harbour link which will connect south Mumbai to Navi Mumbai in less than 30 minutes;
- The Navi Mumbai international airport; and
- A world class smart city being developed at Pen in the Raigad districts of the state of Maharashtra.

With these projects, the Board believes the demand for a dynamic facility like Karanja will become more compelling than ever before.

The port also provides access to the primary hinterland including a cargo clusters around Mumbai, Nashik, Pune, Aurangabad, South Gujarat and North Karnataka.

Local Government Support

We have the full support and approval from Maharashtra Maritime Board (MMB) for the development and running of the facility.

II. Implementing our Strategy

2017 has been a constructive year with a number of important developments and significant changes:

- **Construction** -The major construction milestone in 2017 was the successful completion of the final piling of the main jetty, leading to testing vessels docking in January 2018. Construction has been on a 24 hour operation since the end of the monsoon to recover lost time during the monsoon season, although the expensive work stream of land-reclamation was reduced so as to ensure that the work was aligned with the Company's forecast revenue generation and land requirements. We have kept the market and

investors regularly updated with progress by publishing drone photographs and videos tracking progress on our website.

- **Customers** - With the facility taking shape earlier adopters have seen the competitive and strategic advantage that using Karanja will offer over its competitors. We were delighted to have signed two binding Customer Contracts, providing long term secured revenue. We have ongoing discussions with potential domestic and international partners.

- **Marketing** - With our first customers signed up, we have been able to dedicate time to a focused marketing campaign, a highlight of which was attendance at the CII Maritime, Ports, Logistics and Warehousing Expo in Mumbai in November which included having a stall next to JNPT. We have also produced a marketing video which can be viewed on our website www.mercpl.com. The diligent work of industry experts in India, the UK and USA has seen the establishment of a healthy pipeline of potential customers from leading world conglomerates.

- **People** - We constantly invest in our greatest asset, our people – enabling them to grow and flourish is crucial to our future success. In 2017 we appointed Andrew Henderson as our first CFO who in conjunction with the MD and COO, has been building the Group's accounting and operational teams needed to be ready for increased governance and reporting requirements as we gear up to be operational.

- **Enhanced Management & Corporate Governance -** At the start of 2017 MPL already had a highly experienced management team with Nikhil Gandhi (chairman and Founder), Pavan Bakshi (Managing Director) and Jay Mehta (Chief Operating Officer) who together have over 30 years of experience. The retirement of Peter Jones and James Sutcliffe as Non-Executive Directors has led to the Board and Management teams experience being further enhanced with the appointment of John Fitzgerald (Non-Executive Director) who joins Lord Howard Flight on the Board. John has a wealth of port and infrastructure experience. John previously acted as a board member for the Associated British Ports and managed the UK's largest and most commercially successful port complex, ABP Humber Ports.

III. Business Review

Measuring our Progress Financial Performance in 2017

Work onsite progressed in 2017 with some key construction milestones being achieved in the year.

As stated in the Company's Admission Document dated October 2010 the construction timetable was anticipated to be 36 months.

After the well documented and protracted process required to secure environmental clearance, the Company began construction in earnest in March 2015. Whilst some time was spent resolving local issues from the middle of March 2015, full time work on site resumed in October 2015 and has continued uninterrupted to 31 December 2017. The end of FY 17 marked 27 months of the construction phrase.

As at 31 December the carrying value of the port which is still under construction was £123.65 million versus £94.94 million as at 31 December 2016.

Managing Cash & Debt:

The Company continues to manage its resources in line with the timetable to operation; as a result of the date of revenue receipts being slightly later than anticipated, the Company has reduced the level of expansion activity on site, particularly in the expensive work-stream of land reclamation.

That said, there is significantly more land than the circa 50 acres required to commence operations. Reclamation work will, however, accelerate once again upon revenue generation being achieved and this phasing does not impact upon the Company's ability to commence operations at the facility or on its final configuration as a 200 acre, all weather port and logistics facility.

During the last year the Company has made a substantial saving by using only 62 per cent of the debt facility and spending down equity rather than debt. Approximately £2.8m of accrued interest was saved in the year.

The Company has also been actively working on securing the most cost efficient financing. In the short term we have reached an agreement with our principal banks, for an amendment to the current Term Loan Facilities agreement dated 28 February 2014. The main changes are extending the period of the facility and moving back the first quarterly principal repayment from December 2018 to June 2020. This gives the Company the financial flexibility to deliver the completed port and build up reserves to be able to finance the future debt requirements.

At the year end the Group had cash or cash equivalents of £5.4 million versus £35.7 million at 31 December 2016.

The Company has utilised bank borrowing of INR 298.45 crore (£34.72 million) as at 31 December 2017 versus INR 268.87 crore (£32.22 million) as at 31 December 2016 out of total sanctioned bank borrowings of INR 480 crore (£55.84 million).

Cash and bank debt has continued to be deployed during 2018 in line with management's expectation and scaled back to accommodate the delay in obtaining customs clearance as noted. As has been widely reported, the banking sector in India has been experiencing difficulties and is undergoing reform. One of the consequences of this has been that the Indian public sector banks have imposed extra levels of bureaucracy, leading to unpredictable timing or delay in the receipt of funds by their customers, and the Group is not immune from this. The Group continues to be in compliance with the terms of its banking facilities and the banking issues in India have not had an impact on the construction of the Facility to date. However, the Board is keen to ensure that the general situation with the Indian banking sector and any delay to the drawdown of its banking facilities in the future does not have any impact on the Group. As such, Nikhil Gandhi, the Chairman of the Group, has agreed to provide a loan facility for 12 months to 30 June 2019, of an amount consistent with the undrawn existing bank facility, to ensure that there is no interruption to work on site should this be the case and also to give the Group the option of refinancing the current debt facility.

Non-Financial highlights in 2017

The company has seen a year of a number of important developments and significant changes. Below are a number of our key achievements in 2017:

17 January 2017 - Issue of £3 Million Equity from the Group Chairman

As was documented in the second equity fundraiser our Chairman Mr. Gandhi subscribed to a further £3m of shares with the payment made on January 17th leading to the final amount raised during 2016 and 2017 from the fundraise of £37.6m.

13 March 2017 - MOU signed

We announced signing a Memorandum of Understanding to develop an operations hub, this was converted into our first contract.

25 August 2017 - First Contract Win

25 August 2017 will be viewed as a key date in the history of MPL. After diligent work by the team in India we were able to announce our first binding customer contract to manage cargo. The contract is with an Indian-based company for a five-year term, extendable by an additional two years. In the first year, MPL has contracted to handle two million tonnes of cargo (with a guaranteed minimum of 750,000 tonnes). In year two, this will increase to two and a half million tonnes (with a guaranteed minimum of one million tonnes), and to three million tonnes in year three (with a guaranteed minimum of two million tonnes).

20 September - Appointment of two new Directors

Having served as a non-executive Directors' at MPL for nearly seven years since the Company's IPO, Peter Jones & James Sutcliffe retired in September at the Company's AGM. This led the Board to making two new appointments of a new NED and a CFO.

John Fitzgerald joined the board as a non-executive director bringing a background of commercial, operational, strategic planning, performance management and other experience to MPL. Andrew Henderson joined the Board as Chief Financial Officer having worked with the Group for nearly 12 months as Head of Finance.

03 November 2017 - Piling completed

The driving of the last of the 248 piles required for the 400 meters of jetty was a key event in the year. With the piles completed focus shifted to building the deck slabs for the entire length of the quay.

22 December 2017 - Second Contract Win

We announced entering into our second binding customer contract to manage cargo. The Contract, which is with an Indian-based trading and a stevedoring company, has a seven-year term, and is then extendable by an additional two years. Under the contract, MPL will provide berthing facilities and approximately seven acres of backup land suitable for storage of cargo, which is expected to include pulses, fertilizer and construction materials. The area of backup land will increase as the cargo volume is increased. The Contract envisages a minimum of one million tonnes of cargo in year 1, two million in Year 2 and three million in Year 3.

Under the Contract, the customer shall be responsible for all handling operations and the customer will make a substantial capital investment in the facility through the construction of warehouses for storage. The first cargo under the Contract will land once the customer's warehouses have been constructed.

2018 - the story so far

On 15 June 2018 the company received confirmation from the Maharashtra Maritime Board (MMB) that KTPL's lease over the land has been increased from 30 to 50 years. In addition, the MMB has also granted the Company the approval to develop an additional 200 acres of land and build a further 1000 metres of waterfront jetty.

It was also announced on the 15 June 2018 that the company had received notification under section 7 of the Customs Act 1962 of the appointment of KTPL's Karanja Terminal as a customs port. The Board considers this to be the major development in the customs clearance process and consistent with Board's view that receipt of final customs clearance is a formality.

IV. Principal risks and uncertainties

The Directors believe that the management of the business and the implementation of the Group's plans are potentially exposed to a variety of risks. The admission document published by the Company in connection with Admission (a copy of which is available on the Company's website at www.mercpl.com) sets out a number of the principal risks that the Directors considered, at the time of Admission, that the Company and its business were potentially exposed to. Potential financial risks have also been disclosed in the Company's accounts and specifically notes 3 and 13 thereto.

V. Business Model

The Company aims to develop and efficiently operate profit making ports & logistics facilities.

• In Karanja specifically, the business model for the port is four pronged:

– Coastal Movement of Cargoes such as Containers, Cement and other break-bulk cargo that can be transported in smaller vessels;

– Feeder movement of cargo to larger ports in the vicinity; 'Sagarmala' policy initiative which seeks to promote coastal and in-land waterways movement of cargo;

– Mid-stream Discharge and Loading of Cargo, such as steel coils and plates at anchorage; and

– To benefit from having an integrated Container Freight Station (CFS) (logistics facility) which would help in easing congestion issues in the storage yard of the port – a problem that currently plagues JNPT.

VI. Key Business Drivers:

- **India is the fastest Growing major economy**

  By the final quarter of 2017 India had regained the title of the world's fastest growing major economy after figures confirmed it grew more than 7 per cent on an annualised basis in the three months to December, overtaking China after a year of lagging behind. In 2017 the Indian economy grew at 6.6 per cent and is forecast to grow at 7.5 per cent in 2018.

  Source: IBEF –Snapshot of Indian Economy and www.ft.com - Indian Economy

- **Need for good rail and road connectivity:**

  The Government of India is committed to and has initiated policy measures for the creation of infrastructure for good rail and road connectivity and the broadening of existing highways on a fast track basis. The Directors believe that this will assist in reducing India's logistics costs for EXIM trade and enable the country to be more competitive globally. This should add volumes and all ports including Karanja should benefit. India's rail network already constitutes 108,706 kilometres, running 7,421 trains carrying 3 Million MT of freight daily, whilst India's road network is the second largest in the world. The Karanja terminal is approximately 5 kilometres from "Uran", a new rail head approved by the Government, which is currently under construction. By the time the western Dedicated Freight Corridor is operational, Karanja should benefit from this rail infrastructure as it will offer better connectivity by rail to surrounding locations. With approximately 35% of JNPT's total cargo going to these areas the Directors believe that Karanja is particularly well placed to benefit from this.

Source: IBEF –Snapshot of Indian Economy

Indian port sector – Need for non-major ports:

According to the Ministry of Shipping, around 95 per cent of India's trading by volume and 70 per cent by value is done through maritime transport. In 2017 the Cargo traffic handled at major ports in India stood at 647.43 Million MT with the anticipated growth to 679.36 Million MT in FY 2018. Further data demonstrates that a port of Karanja's size and capacity is needed, with the handling by non-major ports in India continuing to grow to 485.33 Million MT as compared to 466.1 Million MT in the previous year. While growth registered at major ports stood at CAGR 2.73%, the CAGR at non-major ports registered was 10.01% during the period 2007 - 2017. Investment in major ports is estimated to be US$18.6 billion, while the investment in non–major ports is estimated to be USD28.5 billion, as per the Maritime agenda 2020. There is going to be a creation of port capacity of 3,200 Million MT to handle and estimated cargo volume of 2,500 Million MT by 2020.

Source: IBEF

Drivers of containerised growth in India:

India's GDP has grown progressively over the past two decades due to a combination of factors, including the EXIM trade volume, which has been increasing at a higher rate than the GDP. This has driven growth in container traffic, as shippers are progressing from general or bulk shipping to container transport. New

opportunities are being created with a new foreign trade policy which aims to increase India’s share in the global trade to 3.5 per cent.

To take advantage of the growth Indian Ports need to overcome three main challenges:

– the speed of evacuation of cargo/containers to and from the ports,

– the absence of a sound inland transportation system, and

- the absence of an effective coastal shipping and transportation system to ensure faster movement of cargo between the ports.

The Sagarmala program for port led development aims to leverage India's vast coastlines and industrial waterways to drive industrial development. Modernisation of India's port sector is targeting reduced cost and time for transporting goods, benefiting industries and export/import trade and contributing to Indian growth and prosperity. Karanja offers new port facilities on India’s busy west coast, creating new jobs and using logistics expertise to deliver modern supply chain solutions.

The Company considers the lease extension to beyond 2060 to be a significant endorsement from the key government organisation responsible for the maritime economy and illustrates the confidence that the MMB has in MPL. The decision of the MMB comes on the back of significant interest in the new facility from a wide range of shipping and cargo businesses. Prime Minster Modi’s government Sagarmala initiative supports port led development as a key driver in Indian economic development and MPL is proud to be an important contributor to the delivery of the Prime Minister's flagship policy.

New Projects benefitting Karanja port directly:

A number of new projects in the vicinity are expected to benefit Karanja and provide long term growth opportunities. These include:

I. **The commissioning of a 4th container terminal at JNPT by PSA:** This will add significant volume to JNPT’s throughput and will double it to approx. 10 million TEUS by 2022. Additional and growing volume at JNPT will boost Karanja’s strategic location and evacuation of containers through water mode will become more of a need.

II. **The creation of a coastal berth at JNPT:** This berth expected by 2019 will provide a direct link between Karanja terminal and JNPT coastal berth for cargo storage and evacuation.

III. **The deepening of Karanja creek:** Karanja port is currently constrained by its draft due to the GAIL and IPCL pipeline passing through the entrance of the creek at 5 Mts depth. There is a proposal by the Government body Inland Waterways Authority of India (IWAI) and Maharashtra Maritime Board (MMB) to re-route the pipe at a depth of 10 Mts. This will allow the approach to Karanja to be dredged to 10 Mts and at tidal heights, Karanja will be able to handle vessels of up to 11 Mts draft. This will be a significant development and will transform Karanja from a shallow draft barge port to deep water ocean going vessel. This is expected to take at least 3-4 years.

IV. **The construction of a second airport in the close vicinity of Karanja terminal:** The second international airport is under construction just 14 kilometres from Karanja terminal. The construction work at the site will require significant volumes of construction material, namely steel and cement and Karanja is ideally suited and located to get these materials transported from nearby coastal areas.

V. **Infrastructure projects in and around Mumbai**: Projects such as the Trans Harbour link, Shivaji statue and coastal road are projects which will soon reach the construction stage. Karanja port is strategically located for pre-fabrication, storage and shipment of materials for these projects and has in fact been approached by the infrastructure developers for its use.

VII. Risk Management

Currently, the principal risks facing the Company emanate from risks specific to the Karanja development.

Risk factors and their mitigation measures are as follows:

- **Regulatory Risk:** While the Company has received all necessary approvals for the development phase of the project, future risks of change in policies impacting operational aspects such as tariff policies, cabotage laws etc., continue to remain. However, the Group's strong management team and local advisors previous experience and reputation continues to be helpful in navigating any such hurdles along the way. Following the receipt of notification under section 7 of the Customs Act 1962, the Board now considers receipt of final clearances a formality. This mitigates the risk that the port will not become operational.

- **Tax Risk:** A recent Court judgement allows for interest income to be offset against the preoperative expenditure and therefore the interest is not chargeable to income tax. The Board are considering the facts of this court judgement to determine if they are relevant to the Group, however currently the Group continues to recognise the liability in full.

- **Construction & Completion Risk:** Mr. Nikhil Gandhi has over 25 years of experience in successfully implementing large infrastructure projects. While time and cost overruns are common to large scale infrastructure projects, they can be mitigated to a large extent by the selection of a world class EPC contractor and by tight project management from the Company's side. The Company has appointed ITD Cementation, a leading EPC contractor with extensive experience in maritime construction, and also has access to a strong in-house project management team. The company has worked closely with ITD in having weekly updates and responding in real time as issues arise.

- **Funding Risk:** The Company is fully funded from both a debt and equity perspective, however due to the current banking crisis in India there is uncertainty about the timing and availability of when funds can be drawn on the existing bank facility. This has been mitigated by the Chairman providing a loan facility for 12 months to 30 June 2019 for an amount consistent with the undrawn existing bank facility. This is being monitored closely by the Board and alternative funding options are being explored.

- **Foreign Exchange Risk:** The exchange difference arising due to foreign currency exchange rate variances on translating a foreign operations into the presentational currency results in a translation risk. The exposure to FX risk is being closely monitored by the board on a regular basis. Investors are at risk as investments are made in GBP and the asset is in INR, therefore the fluctuation in currency can impact the carrying value of the asset when retranslated.

- **Marketing Risk:** Marketing Risk refers to the risk that the Company may not be able to generate sufficient cargo for the port. To mitigate this risk, the Company has appointed Mr. Umesh Grover and Capt. Ashok Shrivastava as Head and Co-Head of Business Development and Sales & Marketing respectively. During 2017 two binding contracts were signed. The Company continues to support Mr. Grover and Capt. Ashok Shrivastava who have extremely well-regarded track records of around 35-45 years each. Mr. Grover led the Container Business and Marketing at the Shipping Corporation of India (SCI) for several years, and retired as a Director on the Board of the SCI, while Capt. Shrivastava, a Master Mariner by profession has enviable experience in CFS and the shipping industry. The company benefits immensely from their experience and relationships in the fields of shipping and logistics.

VIII. Financial and Non-financial Key Performance Indicators (KPIs)

Given that the port is not yet operational, the Directors are monitoring the cashflows and revising the construction schedule and achievements of milestones thereof. Management submits to the board an updated note on a monthly basis which includes an update on construction and cashflows.

Currently, the only relevant financial measure to be monitored is the Actual vs. Budgeted expenditure on the project, capital expenditure and company overheads. These items are closely monitored by management and reported to the Board for regular review.

The financial parameters that will be monitored once the facility becomes operational are:

- Return on Equity
- Internal Rate of Return
- NPV (Net Present Value)
- DSCR (Debt Service Coverage Ratio)
- Current Ratio
- Quick Ratio
- Debt/Equity
- Gross Margins/EBITDA Margins/Operating Margins
- NAV (Net Asset Value) per share

Non-Financial:

The non-financial parameters that will be monitored once the facility becomes operational are:

- Turnaround time for cargo
- Capacity utilisation
- Cargo evacuation time
- Compliance with Environmental regulations and other legal matters

IX. Corporate Social Responsibility (CSR)

Social, community and human rights issues:

The company proposes to engage in several CSR initiatives over the tenure of its lease agreement with the Maharashtra Maritime Board. Funds will be allocated for the various CSR initiatives once the total budget of the same is passed by the Board.

The CSR Program will address the following areas for community development in the Chanje area:

Education/Literacy Enhancement: 15% of the total budget
Employment/Skill Development: 20% of the total budget
Community Development: 10% of the total budget
Health and Sanitation: 15% of the total budget
Help to the Fishermen Community: 15% of the total budget
Social Amenities/Infrastructure Development: 10% of the total budget
Environment Protection: 15% of the total budget

These are indicative percentages; actual expenditure amongst these areas will depend upon local needs and discussion with local government bodies and citizen forums.

The company's intention is to consider the above only when the company is operational and returning profits to investors.

Independent auditor's report to the members of Mercantile Ports & Logistics Limited

Opinion

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of Mercantile Ports & Logistics Limited for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and notes to the consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the company's members, as a body, in accordance with Chapter 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £1.4m which represents 1% of the group's total assets.
- Key audit matters identified were the impairment of the port and going concern.
- We performed full-scope procedures for the Guernsey-registered parent company and the Indian subsidiary. Analytical procedures were performed on the Cypriot component.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Impairment of the port The port and logistics facility being constructed in Mumbai had a carrying value at 31 December 2017 of £123.6m. Total group assets as at 31 December 2017 were £144.7m. The port had not commenced operations as at the year end. Under IAS36, the Group is required to perform a quantified impairment test annually at the end of each reporting period for assets not yet ready for use. The process of performing the impairment assessment for the port required management to forecast cash flows, determine the appropriate discount rate and make other judgemental assumptions. As at 31 December 2017, there were indications of impairment being; the value of asset exceeded the group's market capitalisation and; delays in construction which resulted in additional costs being incurred. We therefore identified the impairment of the	Our audit work included, but was not restricted to: • obtaining management's impairment model which included an assessment of the value in use of the port, and performing a recalculation to ensure the mathematical accuracy of the calculation; • benchmarking the key assumptions utilised in the model, including the port capacity, utilisation rates, revenue growth, tariffs charged and profit margins against comparable companies and comparing the discount rate to the current interest rate being charged on the group's bank facility, whilst also factoring in the cost of equity for a port company based in India; • testing the accuracy of management's forecasting through a comparison of the prior year Board approved forecasts for capital expenditure to actual results during the year ended 31 December 2017; • physically verifying that the port exists during a site visit which took place in April 2018; • confirming the remaining construction contract costs directly with the contractors and comparing this to the costs to completion per management's calculation;

Key Audit Matters	How the matter was addressed in the audit
port as a significant risk, which was one of the most significant assessed risks of material misstatement.	• applying sensitivities to key inputs in the value in use calculations of the port to determine the headroom and robustness of the calculation. The group's accounting policy on property, plant and equipment is shown in note 2 to the financial statements and related disclosures are included in note 10. Reference to the Impairment Review is included within the Significant accounting judgements, estimates and assumptions note on pages 32 and 33 of the financial statements. **Key observations** Our testing did not identify any material misstatements in the carrying value of the port.
Going concern As at 31 December 2017, the Group had agreed facilities with four Indian public sector banks totaling £55.8m. The amount utilised was £34.7m with the balance of the facility, together with cash resources, being required to fund construction work on the port during the next twelve months. The banking sector in India has been experiencing difficulties and this could lead to a delay in the Group being able to drawdown its banking facilities. The Chairman of the Group has provided a loan facility for 12 months to 30 June 2019 to Karanja Port & Logistics Pvt. Limited, of an amount consistent with the undrawn existing bank facility, to ensure that there is no interruption to work on site should there be difficulties with the Group drawing down on its bank facilities. As a result of the uncertainty surrounding the Indian banking sector and the importance of funding being available to enable further construction to take place, we identified going concern as a significant risk.	Our audit work included, but was not restricted to: • obtaining management's going concern assessment and ensuring the cash flows used in forecasts, which underpin the assessment are appropriate; • performing sensitivity analysis on the timing of cash flows, such as cash inflows from when the port becomes operational and the timing of capital and other expenditure payments; • testing the accuracy of management's forecasting through a comparison of the prior year forecasts to actual results during the year ended 31 December 2017; • determining the facilities available to the Group, as well as considering the other sources of finance available; and • determining the ability of the Chairman to provide the loan facility agreed, in the time frame required. The group's accounting policy on going concern is shown in note 2 to the financial statements. Reference to the going concern assessment is included within the significant accounting judgements, estimates and assumptions note on pages 32 and 33 of the financial statements.

Key Audit Matters	How the matter was addressed in the audit
	Key observations The loan facility provided by the Chairman provides the Group with facilities to support their conclusion on going concern, if the Group is unable to draw down on the agreed bank facility. Our audit testing supports the directors' assessment that the Group has the ability to continue as a going concern.

Our application of materiality

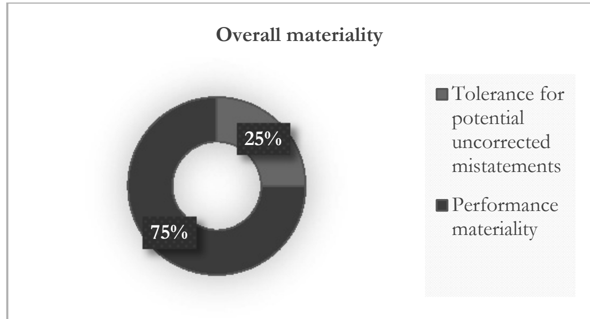
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be £1.4m which is 1% of total assets. This benchmark is considered the most appropriate because the Group did not trade during the year.

Materiality for the current year is the same as the level that we determined for the year ended 31 December 2016.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



We also determined a lower level of specific materiality for certain areas such as related party transactions and directors' remuneration.

We determined the threshold at which we will communicate misstatements to the audit committee to be £70k**.** In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. The components of the group were evaluated by the audit team based on a measure of materiality considering each as a percentage of the total Group assets, liabilities, and profit before taxation, to assess the significance of the component and to determine the planned audit response. The significance of qualitative factors, such as related party transactions and directors' remuneration, was also factored into our testing approach.

The outcome of this assessment was that the Indian subsidiary, Karanja Terminal & Logistics Pvt Ltd, and Guernsey parent company, Mercantile Ports & Logistics Limited, were considered to be significant components and a full scope audit was performed on these entities. The percentage of total group assets, liabilities, and loss before tax held within these two entities was 100%, 100%, and 99% respectively.

The only remaining entity within the group is the Cypriot holding company, Karanja Terminal & Logistics (Cyprus) Limited, on which we performed analytical review procedures.

The financial records for Karanja Terminal & Logistics Pvt Ltd which owns the port are located in India. The audit engagement team therefore visited the Mumbai offices of the company to perform the audit testing and during this visit they also spent time with the Chief Operating Officer and site engineers whilst visiting the port in April 2018.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 3 to 15, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the company financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 5 and 6, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group'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 the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the group financial statements

Our objectives are to obtain reasonable assurance about whether the group 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
29 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
CONTINUING OPERATIONS			
Revenue		-	-
		-	-
Administrative Expenses	5	(3,416)	(2,409)
OPERATING LOSS		**(3,416)**	**(2,409)**
Finance Income	6	11	1,301
Finance Cost		-	-
NET FINANCING INCOME		**11**	**1,301**
LOSS BEFORE TAX		**(3,405)**	**(1,108)**
Tax expense for the year	7	-	(449)
LOSS FOR THE YEAR		**(3,405)**	**(1,557)**
Loss for the year attributable to:			
Non-controlling interest		(1)	2
Owners of the parent		**(3,404)**	(1,559)
Loss for the year		**(3,405)**	**(1,557)**
Other Comprehensive Income / (expense):			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(2,785)	9,697
Other comprehensive income/(expense) for the year		**(2,785)**	**9,697**
Total comprehensive income/(expense) for the year		**(6,190)**	**8,140**
Total comprehensive income/(expense) for the year attributable to:			
Non-controlling interest		(1)	2
Owners of the parent		(6,189)	8,138
		(6,190)	**8,140**
Loss per share (consolidated):			
Basic & Diluted, for the year attributable to ordinary equity holders	9	(0.008p)	(0.020p)

The notes on pages 26 to 48 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Assets			
Property, plant and equipment	10	**123,985**	95,111
Total non-current assets		**123,985**	**95,111**
Trade and other receivables	11	15,315	19,079
Cash and cash equivalents	12	5,423	35,697
Total current assets		**20,738**	**54,776**
Total assets		**144,723**	**149,887**
Equity			
Share Premium	14	106,763	103,714
Retained earnings	14	(498)	2,905
Translation Reserve	14	(12,740)	(9,955)
Equity attributable to owners of parent		**93,525**	**96,664**
Non-controlling Interest		16	17
Total equity		**93,541**	**96,681**
Liabilities			
Non-current			
Borrowings	15	34,934	32,294
Non-current liabilities		**34,934**	**32,294**
Current			
Borrowings	15	23	33
Current tax liabilities	16	7,417	9,077
Trade and other payables	17	8,808	11,802
Current liabilities		**16,248**	**20,912**
Total liabilities		**51,182**	**53,206**
Total equity and liabilities		**144,723**	**149,887**

The notes on pages 26 to 48 form part of these consolidated financial statements.

The consolidated financial statements have been approved and authorized for issue by the Board on 29 June 2018.

Nikhil Gandhi

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(3,405)	(1,108)
Non cash flow adjustments	19	(1,559)	3,764
Operating (loss)/profit before working capital changes		**(4,964)**	**2,656**
Net changes in working capital	19	770	2,861
Net cash from operating activities		**(4,194)**	**5,517**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(31,752)	(58,555)
Finance Income	6	11	1,301
Net cash used in investing activities		**(31,741)**	**(57,254)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of Share Capital	14	3,000	29,124
Reversal of share issue cost		49	--
Proceeds from new borrowing		2,630	15,099
Net cash from financing activities		**5,679**	**44,223**
Net change in cash and cash equivalents		**(30,256)**	**(7,514)**
Cash and cash equivalents, beginning of the year		35,697	38,569
Exchange differences on cash and cash equivalents		(18)	4,642
Cash and cash equivalents, end of the year		**5,423**	**35,697**

The notes on pages 26 to 48 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Premium	Translation Reserve	Retained Earnings	Non-controlling Interest	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2017	**103,714**	**(9,955)**	**2,905**	**17**	**96,681**
Issue of share capital	3,049	--	--	--	3,049
Transactions with owners	**3,049**	--	--	--	3,049
Loss for the year	--	--	(3,404)	(1)	(3,405)
Foreign currency translation differences for foreign operations	--	(2,785)	--	--	(2,785)
Total comprehensive income for the year	--	(2,785)	(3,404)	(1)	(6,190)
Balance at 31 December 2017	**106,763**	**(12,740)**	**(498)**	**16**	**93,541**
Balance at 1 January 2016	**71,590**	**(19,652)**	**4,464**	**15**	**56,417**
Issue of share capital	32,124	-	-	-	32,124
Transactions with owners	32,124	-	-	-	32,124
Loss for the year	-	-	(1,559)	2	(1,557)
Foreign currency translation differences for foreign operations	-	9,697	-	-	9,697
Total comprehensive income for the year	-	9,697	(1,559)	2	8,140
Balance at 31 December 2016	**103,714**	**(9,955)**	**2,905**	**17**	**96,681**

The notes on pages 26 to 48 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Mercantile Ports & Logistics Limited formerly known as SKIL Ports & Logistics Limited (the "Company") was incorporated in Guernsey under The Companies (Guernsey) Law, 2008 with registered number 52321 on 24 August 2010. Its registered office and principal place of business is Martello Court, Admiral Park, St. Peter Port, Guernsey GY1 3HB. It was listed on the Alternative Investment Market ('AIM') of the London Stock Exchange on 7 October 2010.

The consolidated financial statements of the Company comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements have been prepared for the year ended 31 December 2017, and are presented in UK Sterling (£).

The principal activities of the Group are to develop, own and operate a port and logistics facilities. As of 31 December 2017, the Group had 51 (Fifty one) (prior year 26 (Twenty-Six) employees).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and also to comply with The Companies (Guernsey) Law, 2008.

Going Concern

The financial statements have been prepared on a going concern basis as the directors believe that the Group has access to adequate funds and facilities to enable it to exist as a going concern for the foreseeable future. The Group has continued the construction work at site and the Directors believe that they will have sufficient sanctioned credit facilities from lenders for the port to become operational. It has been assumed that the port will become operational during August now that a key element of customs clearance has been obtained and revenue will be generated which will also help fund future costs.

As has been widely reported, the banking sector in India has been experiencing difficulties and is undergoing reform. One of the consequences of this has been that the Indian public sector banks have imposed extra levels of bureaucracy, leading to unpredictable timing or delay in the receipt of funds by their customers, and the Group is not immune from this. The Group continues to be in compliance with the terms of its banking facilities and the banking issues in India have not had an impact on the construction of the Facility to date. However, the Board is keen to ensure that the general situation with the Indian banking sector and any delay to the drawdown of its banking facilities in the future does not impact on the Group. As such, Nikhil Gandhi, the Chairman of the Group, has provided a loan facility for 12 months to 30 June 2019, on terms consistent with the Group's existing bank facility, should there be a delay in accessing the Group's existing bank facilities in the future.

The Group continues to closely monitor and manage its liquidity risk. In assessing the Group's going concern status, the Directors have taken account of the financial position of the Group, anticipated future utilisation of available bank facilities and other funding options, its capital investment plans and forecast of gross operating margins as and when the operations commence. Stress testing of the forecasts has been performed. Based on the above, the Board of Directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries) up to 31 December 2017. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through holding more than half of the voting rights. The financial statements of the subsidiaries are prepared for the same period as the Company using consistent accounting policies. The fiscal year of KTLPL (Karanja Terminal & Logistics Private Limited) ends on March 31 and its accounts are adjusted for the same period as the Company for consolidation.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

(c) LIST OF SUBSIDIARIES

Details of the Group's subsidiaries which are consolidated into the company's financial statements are as follows:

Subsidiary	Immediate Parent	Country of Incorporation	% Voting Rights	% Economic Interest
Karanja Terminal & Logistics (Cyprus) Ltd	Mercantile Ports & Logistics Limited	Cyprus	100.00	100.00
Karanja Terminal & Logistics Private Limited	Karanja Terminal & Logistics (Cyprus) Ltd	India	99.75	99.75
* Mercantile Ports (Netherlands) BV	Mercantile Ports & Logistics Limited	Netherlands	100.00	100.00

* Mercantile Ports (Netherlands) BV was incorporated on 19th April 2017, in Netherlands jurisdiction.

(d) FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in UK Sterling (£), which is the Company's functional currency. The functional currency for all of the subsidiaries within the Group is as detailed below:

Karanja Terminal & Logistics (Cyprus) Ltd (KTLCL) - Euro

Karanja Terminal & Logistics Private Limited (KTLPL) - Indian Rupees

Mercantile Ports (Netherlands) BV - Euro

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary items

denominated in foreign currency at the year-end exchange rates are recognised in the consolidated statement of comprehensive income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date).

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than £ are translated into £ upon consolidation.

On consolidation, the assets and liabilities of foreign operations are translated into £ at the closing rate at the reporting date. The income and expenses of foreign operations are translated into £ at the average exchange rates over the reporting period. Foreign currency differences are recognised in other comprehensive income in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserves shall be transferred to the consolidated statement of comprehensive income.

(e) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Interest income:-

Interest income is reported on an accruals basis using the effective interest method.

The Group is in the process of constructing its initial project, the creation of a modern and efficient port and logistics facility in India. The Group has not yet commenced operations and hence, currently does not have any revenue from operations of its core business activity.

(f) BORROWING COSTS

Borrowing costs directly attributable to the construction of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

(g) LEASES

Finance leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding amount is recognised as a finance lease liability. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(h) INCOME TAX

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more probable than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

(i) FINANCIAL ASSETS

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial assets are derecognised when they are extinguished, discharged, cancelled or they expire.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- loans and receivables

All financial assets are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group’s cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

(j) FINANCIAL LIABILITIES

The Group’s financial liabilities include trade and other payables, tax payables and borrowings. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs. Financial liabilities are

measured subsequently at amortised cost using the effective interest method. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(k) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The Group is in the process of constructing its initial project; the creation of a modern and efficient port and logistics facility in India. All the expenditures directly attributable in respect of the port and logistics facility under development are carried at historical cost under Capital Work In Progress as the Board believes that these expenses will generate probable future economic benefits. These costs include borrowing cost, professional fees, construction costs and other direct expenditure. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of constructed asset includes the cost of materials, sub-contractors and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Parts of the property, plant and equipment are accounted for as separate items (major components) on the basis of nature of the assets.

Depreciation is recognised in the Consolidated Statement of Comprehensive Income over the estimated useful lives of each part of an item of property, plant and equipment. For items of property, plant and equipment under construction, depreciation begins when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Thus, as long as an item of property, plant and equipment is under construction, it is not depreciated. Leasehold improvements are amortised over the shorter of the lease term or their useful lives.

Depreciation is calculated on a straight-line basis.

The estimated useful lives for the current year are as

Assets	**Estimated Life of assets**
Office equipment	3-5 Years
Computers	2-3 Years
Furniture	5-7 Years
Vehicles	5-7 Years

Depreciation methods, useful lives and residual value are reassessed at each reporting date.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

(l) TRADE RECEIVABLES AND PAYABLES

Trade receivables are financial assets categorised as loans and receivables, measured initially at fair value and subsequently at amortised cost using an effective interest rate method, less an allowance for impairment. An allowance for impairment is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Trade payables are financial liabilities at amortised cost, measured initially at fair value and subsequently at amortised cost using an effective interest rate method.

(m) ADVANCES

Payments made to the EPC contractor and suppliers for construction of the port asset where the work has not been completed are treated as advances and are held on the balance sheet until they can be offset against future work completed in line with the terms of the contractual agreement.

(n) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) SHARE CAPITAL AND RESERVES

Shares are 'no par value'. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Foreign currency translation differences are included in the translation reserve. Retained earnings include all current and prior year retained profits.

(p) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that the property, plant and equipment may be impaired.

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or impairment losses, if any. There is currently no impairment of property, plant and equipment.

(q) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

A number of new standards, amendments to standards and interpretations are not effective for annual periods beginning 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

i. IFRS 9 Financial Instruments (effective from 1 January 2018)
IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces a new expected credit loss model. The new guidance has also substantially reformed the existing hedge accounting rules. It provides a more principles-based approach that aligns hedge accounting closely with risk management policies. There is not expected to be an impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018.

ii. IFRS 15 Revenue from contracts with customers (effective from 1 January 2018)
IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard provides a single principles-based five-step model to be applied to all contracts with customers. The adoption of this standard will have no impact on the Group's financial statements until revenue is generated, at which point this new standard will be applied.

iii. IFRS 16 Leases (effective from 1 January 2019)
IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating lease incentives and SIC -27 Evaluating the substance of transaction involving the legal form of lease.

The new standard requires the lessee to recognise the operating lease commitment on the balance sheet. The Group, as a lessee, has substantial operating leases and commitments as disclosed in note 22. The standard would require future lease commitments to be recognised as a liability, with a corresponding right of use asset. This will impact the EBITDA and debt to equity ratios of the Group. In addition, depending on the stage of lease, there would be a different pattern of expense recognition on leases. Currently, lease expenses are recognised in cost of sales, however, in future the lease expense would be an amortisation charge and finance expense.

The Group is in the process of collating its leases and computing the impact.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The following are significant management judgments in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Impairment Review

At the end of each reporting period, the board is required to assess whether there is any indication that an asset may be impaired (i.e. its carrying amount may be higher than its recoverable amount). As at 31 December the carrying value of the port which is still under construction is £123.65 Million. The Value in use has been calculated using the present value of the future cash flows expected to be derived from the port. As the port is still under construction this has included the costs to completion plus the anticipated revenues and expenses once the port becomes operational. The key assumptions behind the discounted cash flow as at 31 December 2017 are:

- Construction outflow to get the asset in a state to start generating income.
- Cash flow projections have been run until 2059 - the length of the lease of the land at the year end.
- The revenue capacity is a product of the area available to store and stack containers and jetty capacity.
- Inflation 4%.
- Utilisation rate at 10% in 2019, 50% in 2020, 65% in 2021 & 75% by 2022.
- Revenue based on current comparable market rates.
- The costs are set based on a margin of 37%, which is based on of similar ports & CFS facilities.
- Discount Rate 13.25%
- While the company has obtained the approval to build out a further 200 Acres of Land and develop a further 1,000 meters of waterfront, the costs and future income flow associated with this second phase of construction project have not been considered in the current review. The impairment review is based on the current project being the completion and operation of the Multi-purpose site being developed over 200 acres of land with a sea frontage of 1,000 meters.

Going concern

As has been widely reported, the banking sector in India has been experiencing difficulties and is undergoing reform. The directors believe the Group is a going concern and have prepared the accounts on this basis for the reasons noted on page 26.

Recognition of income tax liabilities

The Group has recognised a tax liability based on its best estimate of the amount of tax that will be payable. In light of a recent court judgement, there is a possibility that the group will not be expected to pay Income tax in India on interest income due to the availability of pre-operating losses, however due to the uncertainty around this the Group has currently recognised the full liability at this time.

4. SEGMENTAL REPORTING

The Group has only one operating and geographic segment, being the project on hand in India and hence no separate segmental report has been presented.

5. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Employee costs	302	306
Directors' fees	484	348
Operating lease rentals	302	188
Foreign exchange gains/loss	4	3
Depreciation	113	85
Other administration costs	2,211	1,479
	3,416	**2,409**

6. FINANCE INCOME

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Interest on demand deposits	--	1,297
Interest on bank deposits	11	4
	11	**1,301**

7. INCOME TAX

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Loss Before Tax	(3,405)	(1,108)
Applicable tax rate in India*	30.90%	34.61%
Expected tax credit	**(1,052)**	**(384)**
Adjustment for non-deductible losses of MPL & Cyprus entity against income from India	311	339
Adjustment for non-deductible expenses	741	494
Actual tax expense	**--**	**449**

*Considering that the Group's operations are presently based in India, the effective tax rate of the Group of 30.90% (prior year 34.61%) has been computed based on the current tax rates prevailing in India. In India, incomes earned from all sources (including interest income) are taxable at the prevailing tax rate unless exempted. However, administrative expenses are treated as non-deductible expenses until commencement of operations. The current income tax expense of Nil million (prior year £0.44 million) represents tax on profit/interest arising in India.

The Company is incorporated in Guernsey under The Companies (Guernsey) Law 2008, as amended. The Guernsey tax rate for companies is 0%. The rate of withholding tax on dividend payments to non-residents by companies within the 0% corporate income tax regime is also 0%. Accordingly, the Company will have no liability to Guernsey income tax on its income and there will be no requirement to deduct withholding tax from payments of dividends to non-resident shareholders.

In Cyprus, the tax rate for companies is 12.5% with effect from 1 January 2014.

8. AUDITORS' REMUNERATION

The following are the details of fees paid to the auditors, Grant Thornton UK LLP and Indian auditors, in various capacities for the year:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Audit Fees		
Audit of financial statements	78	75
Site visit fees	9	9
Audit related assurance services:		
Review of interim financial information	15	11
	102	**95**

A fee of Nil was charged for financial advisory services performed by Grant Thornton UK LLP during the year (2016: £45,000). The statutory audits of Karanja Terminal & Logistics Private Limited and Karanja Terminal & Logistics (Cyprus) Limited are conducted by other auditors, fees paid for these audits is £3,000 (2016: £3,000). Audit fees related to prior year overruns during the year amount to £29,000 (2016: £10,000).

9. LOSS PER SHARE

Both basic and diluted loss per share for the year ended 31 December 2017 have been calculated using the loss attributable to equity holders of the Group of £3.4 million (prior year loss of £1.6 million).

	Year ended 31 Dec 17	Year ended 31 Dec 16
Loss attributable to equity holders of the parent	£(3,404,000)	£(1,559,000)
Weighted average number of shares used in basic and diluted loss per share	412,620,439	78,467,548
LOSS PER SHARE		
Basic and Diluted loss per share	(0.008p)	(0.020p)

10. PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment and their carrying amounts are as follows:

	Computers	Office Equipment	Furniture	Vehicles	Capital Work In Progress	Total
	£000	£000	£000	£000	£000	£000
Gross carrying amount						
Balance 1 Jan 2017	**33**	**36**	**25**	**279**	**94,936**	**95,309**
Net Exchange Difference	(1)	(1)	(1)	(6)	(2,762)	(2,771)
Additions	8	23	11	237	31,473	31,752
Balance 31 Dec 2017	**40**	**58**	**35**	**510**	**123,647**	**124,290**
Depreciation						
Balance 1 Jan 2017	(23)	(18)	(12)	(145)	-	(198)
Net Exchange Difference	1	1	1	3	-	6
Charge for the year	(8)	(7)	(5)	(93)	-	(113)
Balance 31 Dec 2017	(30)	(24)	(16)	(235)	-	(305)
Carrying amount 31 Dec 2017	**10**	**34**	**19**	**275**	**123,647**	**123,985**

	Computers	Office Equipment	Furniture	Vehicles	Capital Work In Progress	Total
	£000	£000	£000	£000	£000	£000
Gross carrying amount						
Balance 1 Jan 2016	**22**	**26**	**21**	**237**	**28,570**	**28,876**
Net Exchange Difference	4	5	4	42	5,024	5,079
Additions	7	5	-	-	61,342	61,354
Balance 31 Dec 2016	**33**	**36**	**25**	**279**	**94,936**	**95,309**
Depreciation						
Balance 1 Jan 2016	(14)	(11)	(7)	(64)	-	(96)
Net Exchange Difference	(2)	(2)	(1)	(12)	-	(17)
Charge for the year	(7)	(5)	(4)	(69)	-	(85)
Balance 31 Dec 2016	(23)	(18)	(12)	(145)	-	(198)
Carrying amount 31 Dec 2016	**10**	**18**	**13**	**134**	**94,936**	**95,111**

The net exchange difference on the Group's property, plant and equipment's carrying amount is a loss of £2.77 million (prior year gain of £5.08 million). The net exchange difference on the Group's property, plant and equipment carrying amount is on the account of the foreign exchange movement.

a) Net Book Value of assets held under Finance Lease

KTLPL's vehicles are held under finance lease arrangements. The Net Book Value of assets held under finance lease arrangements are as follows:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Vehicles	275	134
	275	**134**

The Port facility being developed in India has been hypothecated by the Indian subsidiary as security for the bank borrowings (Borrowing limit sanctioned INR 480 crore (£55.84 million) (2016 INR 480 crore (£57.51 million)) for part financing the build out of the facility.

The borrowing costs in respect of the bank borrowing for financing the build out of facility are capitalised under Capital work in progress. During the year the company has capitalised borrowing cost of £4.58 million (prior year £3.93 million).

The Indian subsidiary has estimated the total project cost of INR1,351 crore (£157million) towards construction of the port facility. Out of the aforesaid Project cost, the contract signed with the Major contractor is INR.1,048 crores (£121million). As of 31st Dec. 2017, the contractual amount (net of advances) of INR 104.8 crores (£12.2 million) is still payable. There were no other material contractual commitments.

Karanja Terminal & Logistics Private Limited (KTLPL), the Indian subsidiary has successfully agreed a Rupee term loan of INR 480 crore (£55.84 million) for part financing the port facility. The Rupee term loan has been sanctioned by four Indian public sector banks and the loan agreement was executed on 28th February, 2014. As at 29 September 2017 the agreement was amended extending the tenure of the loan for 13 years and 6 months with repayment beginning at the end of June 2020.

11. TRADE AND OTHER RECEIVABLES

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Deposits	2,227	2,226
Advances	12,999	16,743
Debtors		
- Related Party	72	72
- Prepayment	17	38
	15,315	**19,079**

Advances include payment to EPC contractor of £12.5 million (prior year £16.7 million) towards mobilisation advances and quarry development. These advances will be recovered as a deduction from the invoices being raised by the contractor over the contract period.

12. CASH AND CASH EQUIVALENTS

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Cash at bank and in hand	5,081	25,977
Deposits	342	9,720
	5,423	**35,697**

Cash at bank earns interest at floating rates based on bank deposit rates. Short-term deposits are callable on demand depending on the immediate cash requirements of the Group, and earn fixed interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £5.42 million (prior year £35.70 million).

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by the Board of Directors.

(a) Market Risk

(i) Translation risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market foreign exchange rates. The Company's presentation currency is the UK Sterling (£). The functional currency of MPL is Sterling (£). The functional currency of its subsidiary Karanja Terminal & Logistics Private Limited (KTLPL) is INR and the functional currency of Karanja Terminal & Logistics (Cyprus) Ltd and Mercantile Ports (Netherlands) BV is Euro.

The exchange difference arising due to variances on translating a foreign operation into the presentation currency results in a translation risk. These exchange differences are recognised in other comprehensive income. As a result, the profit, assets and liabilities of this entity must be converted to GBP in order to bring the results into the consolidated financial statements. The exchange differences resulting from converting the profit and loss account at average rate and the assets and liabilities at closing rate are transferred to the translation reserve.

This balance is cumulatively a £12.7m loss to equity. This is mainly due to a movement from approximately 1:70 to 1:100 between 2010 to 2013 and the translation reserve reaching a loss of £21.6m at 31 December 2013. This resulted in a significant loss to the GBP value of the Indian entity net assets. The closing rate at 31 December 2017 was 1:85, hence the loss in the reserve is not as significant as in 2013-15. With the majority of funding now in India this risk is further mitigated.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the cash and cash equivalents available with the Indian entity of INR 94.87 million (£1.10 million) as on reporting date (prior year INR 850.13 million (£10.18 million)) In computing the below sensitivity analysis, the management has assumed the following % movement between foreign currency (INR) and the underlying functional currency (£):

Functional Currency (£)	31 Dec 2017	31 Dec 2016
INR	+- 10%	+- 10%

The following table details the Group's sensitivity to appreciation or depreciation in functional currency vis-à-vis the currency in which the foreign currency cash and cash equivalents are denominated:

Functional currency	£ (depreciation by 10%)	£ (appreciation by 10%)
	£000	£000
31 December 2017	110	(110)
31 December 2016	1,018	(1,018)

If the functional currency (£) had weakened with respect to foreign currency (INR) by the percentages mentioned above, for year ended 31 December 2017 then the effect will be change in profit and equity for the year by £0.1 million (prior period £1.01 million). If the functional currency had strengthened with respect to the various currencies, there would be an equal and opposite impact on profit and equity for each year. This exchange difference arising due to foreign currency exchange rate variances on translating a foreign operation into the presentation currency results in a translation risk.

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

KTLPL has successfully tied-up a rupee term loan of INR 480 crore (£55.84 million) for part financing the build out of its facility. The company has commenced the drawdown of its sanctioned bank borrowing as of the reporting date. The rate of interest on the bank borrowing will be a floating rate linked to the bank base rate with an additional spread of 375 basis points (2016: 375 bp). The present composite rate of interest is 13.20% (2016: 13.20%).

The base rate set by the bank may be changed periodically as per the discretion of the bank in line with Reserve Bank of India (RBI) guidelines. Based on the current economic outlook and RBI Guidance, management expects the Indian economy to enter a lower interest rate regime as moderating inflation will allow the RBI and thus the banks to lower its base rate in the coming quarters.

Interest rate sensitivity

At 31 December 2017, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. The exposure to interest rates for the Group's money market funds is considered immaterial.

The following table illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/- 1% (2016: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

Year	Profit for the Year £000		Equity, net of tax £000	
	+1%	-1%	+1%	-1%
31 December 2027	-	-	-	-
31 December 2026	(46)	46	(30)	30
31 December 2025	(133)	133	(86)	86
31 December 2024	(222)	222	(144)	144
31 December 2023	(315)	315	(205)	205
31 December 2022	(404)	404	(263)	263
31 December 2021	(479)	479	(311)	311
31 December 2020	(537)	537	(349)	349
31 December 2019	(561)	561	(365)	365
31 December 2018	(490)	490	(319)	319

(b) Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group’s maximum exposure (£13.09 million) to credit risk is limited to the carrying amount of financial assets recognised at the reporting date. The Group’s policy is to deal only with creditworthy counterparties. The Group has no significant concentrations of credit risk.

The Group does not concentrate any of its deposits in one bank or a non-banking finance company (NBFC). This is seen as being prudent. Credit risk is managed by the management having conducted its own due

diligence. The balances held with NBFC's and banks are on a short-term basis. Management reviews quarterly NAV information sent by NBFC's and monitors bank counter-party risk on an on-going basis.

(c) Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its financial obligations. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. KTLPL has tied-up rupee term loan of INR 480 crore (£55.84 million) for financing the construction of the facility. The company has utilised this bank borrowing during the year.

The Group's objective is to maintain cash and demand deposits to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods. Funding for build out of the port facility is secured by sufficient equity, sanctioned credit facilities from lenders and the ability to raise additional funds due to headroom in the capital structure.

As at 29 September 2017 the agreement was amended extending the tenure of the loan for 13 years and 6 months with repayment beginning at the end of June 2020 to ensure additional headroom. Since this amendment was agreed, the banking crisis in India has resulted in uncertainty about the timing and availability of when funds can be drawn on this bank facility. This has been mitigated by the Chairman providing a loan facility for 12 months to 30 June 2019 for an amount consistent with the undrawn bank facility. This is being monitored closely by the Board and alternative funding options are being explored.

The Group manages its liquidity needs by monitoring scheduled contractual payments for build out of the port facility as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored and reviewed by the management on a regular basis. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

As at 31 December 2017, the Group's non-derivative financial liabilities have contractual maturities (and interest payments) as summarised below:

	Principal payments		Interest payments	
Payment falling due	**INR in Crore**	**£000**	**INR in Crore**	**£000**
Within 1 year	-	-	52,73	6,134
1 to 5 year's	154.8	18,009	282.01	32,807
After 5 year's	325.2	37,832	91.42	10,636
Total	**480.00**	**55,841**	**426.16**	**49,577**

The present composite rate of interest of 13.20% and closing exchange rate has been considered for the above analysis. Principal and Interest Payments are after considering future drawdowns of term loans.

In addition, the Company's liquidity management policy involves considering the level of liquid assets necessary to meet the funding requirement; monitoring balance sheet liquidity ratio against internal requirements and maintaining debt financing plans. As a part of monitoring balance sheet liquidity ratio, management monitors the debt to equity ratio and has specified optimal level for debt to equity ratio of 1.

Financial Instruments

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the entire Group's financial instruments that are carried in the financial statements.

	Note	(Carried at amortised cost) Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Financial Assets			
Cash and Cash Equivalents	12	5,423	35,697
Loan and receivables	11	15,315	19,079
		20,738	**54,776**
Financial Liability			
Borrowings	15	34,957	32,327
Trade and other payables	17	8,808	11,802
		43,765	**44,129**

The fair value of the Company's financial assets and financial liabilities significantly approximate their carrying amount as at the reporting date.

14. EQUITY

14.1 Issued Capital

The share capital of MPL consists only of fully paid ordinary shares of no par value. The total number of issued and fully paid up shares of the company as on each reporting date is summarised as follows:

Particulars	Year ended 31 Dec 17	Year ended 31 Dec 16
Shares issues and fully paid:		
Beginning of the year	**384,017,699**	44,000,000
Addition in the year	**30,000,000**	340,017,669
Closing number of shares	**414,017,699**	**384,017,699**

The share premium amounts to £106.76 million (prior year £103.71 million) after reduction of share issue costs. Holders of the ordinary shares are entitled to receive dividends and other distributions and to attend and vote at any general meeting. During the year company has allotted £3 million shares to Nikhil Gandhi (see note 18).

14.2 Other Components of Equity

Retained Earnings

Retained earnings of £ (0.50) million (prior year £2.90 million) include all current year retained profits.

Translation Reserve

The translation reserve of £12.74 million (prior year £9.96 million) is on account of exchange differences relating to the translation of the net assets of the Group's foreign operations which relate to subsidiaries, from their functional currency into the Group's presentational currency being Sterling.

15. BORROWINGS

Borrowings consist of the following:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Current		
Vehicle loan	23	33
	23	**33**
Non-Current		
Bank loan	34,720	32,215
Vehicle loan	214	79
	34,934	**32,294**

Borrowing

Karanja Terminal & Logistics Private Limited (KTLPL), the Indian subsidiary has successfully agreed a Rupee term loan of INR 480 crore (£55.84 million) for part financing the port facility. The Rupee term loan has been sanctioned by four Indian public sector banks and the loan agreement was executed on 28th February, 2014. On 29 September 2017 the terms of sanction was amended, extending the tenure of the loan for 13 years and 6 months with repayment commencing from the end of June 2020. The repayment schedule is as follows:

Payment falling due	Repayment amount	
	INR in Crore	£000
Within 1 year	-	-
1 to 5 year's	154.8	18,009
After 5 year's	325.2	37,832
Total	**480.00**	**55,841**

The rate of interest will be a floating rate linked to the Canara bank base rate (9.40%) with an additional spread of 375 basis points. The present composite rate of interest is 13.20%. The borrowings are secured by the hypothecation of the port facility and pledge of its shares as well as a personal guarantee by the chairman, Nikhil Ghandi. The carrying amount of the bank borrowing is considered to be a reasonable approximation of the fair value.

KTLPL has utilised the Rupee term loan facility of INR 298.45 crore (£34.72 million) (prior year INR 268.87 crore (£32.22 million)) as of the reporting date.

16. CURRENT TAX LIABILITIES

Current tax liabilities consist of the following:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Duties & taxes	52	1,492
Provision for Income Tax	7,365	7,585
Current tax liabilities	**7,417**	**9,077**

The carrying amounts and the movements in the Provision for Income Tax account are as follows:

	£000
Carrying amount 1 January 2017	7,585
Exchange difference	(220)
Carrying amount 31 December 2017	**7,365**

The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of assessment by the Income Tax department on these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made. The company discharges the tax liability on the basis of income tax assessment.

17. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Current		
Sundry creditors*	8,416	11,510
Interest payable	392	292
	8,808	**11,802**

* Sundry creditors are purely in nature of material and services availed for port construction.

18. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

Name	Country of Incorporation	Field Activity	Ownership Interest	Type of share Held
HELD BY The Company (MPL):				
Karanja Terminal & Logistics (Cyprus) Ltd	Cyprus	Holding Company	100%	Ordinary
Mercantile Port (Netherlands) BV	Netherland	Subsidiary Company of MPL	100%	Ordinary
HELD BY Karanja Terminal & Logistics (Cyprus) Ltd:				
Karanja Terminal & Logistics Pvt. Ltd	India	Operating Company - Terminal Project	99.75%	Ordinary

The Group has the following related parties with whom it has entered into transactions with during the year.

a) Shareholders having significant influence

The following shareholders of the Group have had a significant influence during the year under review:

- SKIL Global Ports & Logistics Limited, which is 100% owned by Mr. Nikhil Gandhi, holds 10.32% of issued share capital as at 31 December 2017 (as at 31 December 2016 – 3.31%) of Mercantile Ports & Logistics Limited. Nikhil Gandhi has subscribed to and acquired new shares with a market value of £3 million in January 2017.
- Pavan Bakhshi holds 0.39% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0.36%) of Mercantile Ports & Logistics Limited at the year end.
- Peter Jones holds 0.05% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0.05%) of Mercantile Ports & Logistics Limited at the year end. Peter Jones resigned as a director during the year.
- James Sutcliffe holds 0.002% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0.002%) of Mercantile Ports & Logistics Limited at the year end. James Sutcliffe resigned as a director during the year.
- Lord Howard Flight holds 0.30% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0.26%) of Mercantile Ports & Logistics Limited at the year end.
- Jay Mehta holds 0.074% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0%) of Mercantile Ports & Logistics Limited at the year end.
- John Fitzgerald holds 0.063% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0%) of Mercantile Ports & Logistics Limited at the year end.
- Andrew Henderson holds 0.015% of issued share capital as on 31 December 2017 (as on 31 December 2016 – 0%) of Mercantile Ports & Logistics Limited at the year end.

b) Key Managerial Personnel of the parent

Non-executive Directors

- Mr. Peter Anthony Jones (resigned on 20 September 2017)
- Mr. James Stocks Sutcliffe (resigned on 20 September 2017)
- Lord Howard Flight
- Mr. John Fitzgerald (appointed on 20 September 2017)

Executive Directors

- Mr. Nikhil Gandhi (Chairman)
- Mr. Pavan Bakhshi (Managing Director)
- Mr. Jay Mehta (Director)
- Mr. Andrew Henderson (appointed on 20 September 2017)

c) Key Managerial Personnel of the subsidiaries

Directors of KTLPL (India)

- Mr. Pavan Bakhshi
- Mr. Jay Mehta
- Mr. Jigar Shah
- Mr. Nikhil Gandhi

(Mr. Nikhil Gandhi is Chairman)

Directors of KTLCL (Cyprus)

- Mr. Pavan Bakhshi
- Ms. Andria Andreou
- Ms. Olga Georgiades

d) Other related party disclosure

Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual or close family member of such individual referred above.

- SKIL Infrastructure Limited
- JPT Securities Limited
- KLG Capital Services Limited
- Grevek Investment & Finance Private Limited
- Carey Commercial (Cyprus) Limited
- Henley Trust (Cyprus) Limited
- Athos Hq Group Bus. Ser. Cy Ltd
- Henderson Accounting Consultants Limited
- John Fitzgerald Limited

e) Transaction with related parties

The following transactions took place between the Group and related parties during the year ended 31 December 2017:

	Nature of transaction	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Athos Hq Group Bus. Ser. Cy Ltd	Administrative fees	18	10
		18	**10**

The following table provides the total amount outstanding with related parties as at year ended 31 December 2017:

Transactions with shareholder having significant influence

SKIL Global Ports & Logistics Limited – Receivable amount:

	Nature of transaction	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Debtors	Advances	**72**	**72**
		72	**72**

Transactions with Key Managerial Personnel of the subsidiaries

See Key Managerial Personnel Compensation details as provided below

Advisory services fee

None

Compensation to Key Managerial Personnel of the parent

Fees paid to persons or entities considered to be Key Managerial Personnel of the Group include:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Non Executive Directors fees		
– Peter Jones	**45**	**45**
– James Sutcliffe	**40**	**40**
– Lord Flight	**40**	**12**
– John Fitzgerald	**17**	**-**
	142	**97**
Executive Directors Fees		
– Pavan Bakhshi	**175**	**175**
– Jay Mehta	**107**	**76**
– Andrew Henderson	**64**	**-**
	346	**251**
Total compensation paid to Key Managerial Personnel	**488**	**348**

All of the compensation relates to short-term employee benefits. There are no long-term employee benefits.

Compensation to Key Managerial Personnel of the subsidiaries

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Directors' fees		
KTLPL – India	107	77
KTLCL – Cyprus	3	2
	110	**79**

Sundry Creditors

As at 31 December 2017, the Group had £0.11 million (prior year £0.05 million) as sundry creditors with related parties.

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Grevek Investment & Finance Pvt Ltd	114	50
	114	50

Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party.

19. CASH FLOW ADJUSTMENTS AND CHANGES IN WORKING CAPITAL

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow:

	Year ended 31 Dec 17 £000	Year ended 31 Dec 16 £000
Non-cash flow adjustments		
Depreciation	113	85
FX movement on depreciation	-	(8)
Finance Income	(11)	(1,301)
Tax Expenses	-	(449)
Movement in Share Capital (due to share issued in lieu of services)	-	3,000
(Decrease)Increase in Non-Controlling Interest	(1)	2
(Decrease)/Increase in Current Tax Liabilities	(1,660)	2,435
	(1,559)	**3,764**
(Decrease)/increase in trade payables	(3,094)	8,743
Increase in other payables	100	164
Decrease/(increase) in trade & other receivables	3,764	(6,046)
	770	**2,861**

20. CAPITAL MANAGEMENT POLICIES AND PROCEDURE

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern
- To provide an adequate return to shareholders

Capital

The Company's capital includes share premium (reduced by share issue costs), retained earnings and translation reserve which are reflected on the face of the statement on financial position and in Note 14.

21. FINANCE LEASE

KTLPLs vehicles are held under finance lease arrangements. As of 31 December 2017, the net carrying amount of the vehicles is £0.28 million (2016: £0.13 million).

Finance lease liabilities are secured by the related assets held under finance leases. Future minimum finance lease payments at 31 December were as follows:

	Minimum lease payments due			
	within 1 year £000	1 to 5 year £000	after 5 year £000	Total £000
31 December 2017				
Lease payments	221	76	-	297
Finance charges	(38)	(23)	-	(61)
Net present values	**183**	**53**	-	**236**
31 December 2016				
Lease payments	42	90	-	132
Finance charges	(10)	(11)	-	(21)
Net present values	**32**	**79**	**-**	**111**

22. OPERATING LEASE

The Group has entered into a 30 years lease agreement with the Maharashtra Maritime Board for the development of a port and logistics facility in India. As stated in note 23, this has been extended to 50 years post year end.

Payments falling due	Future minimum lease payments outstanding on 31 Dec 17 £000	Future minimum lease payments outstanding on 31 Dec 16 £000
Within 1 year	273	205
1 to 5 years	989	819
After 5 years	3,299	3,602
Total	**4,561**	**4,626**

The future minimum lease payments are as follows:

Payments falling due	Future minimum lease payments outstanding on 31 Dec 17 INR in Million	Future minimum lease payments outstanding on 31 Dec 16 INR in Million
Within 1 year	23	17
1 to 5 years	85	68
After 5 years	284	301
Total	**392**	**386**

The annual lease rent is payable by KTLPL in INR. The exchange rate on the reporting date has been considered for deriving the £ amount for future minimum lease payment.

23. CONTINGENT LIABILITIES AND COMMITMENTS

The group has no (2016: £NIL) contingent liabilities as at 31 December 2017.

24. EVENTS SUBSEQUENT TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

As at 15 June the company received confirmation from the Maharashtra Maritime Board (MMB) that KTPL's lease over the land has been increased from 30 to 50 years. In addition, the MMB has also granted the Company the approval to develop an additional 200 acres of land and build a further 1 kilometre of berthing capacity.

It was also announced on the 15 June that the company had received notification under section 7 of the Customs Act 1962 of the appointment of KTPL's Karanja Terminal as a customs port. The Board considers this to be the major development in the customs clearance process and consistent with Board's view that receipt of final customs clearance is a formality.

25. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2017 were approved and authorised for issue by the Board of Directors on 29 June 2018.