JINHUI

# JINHUI HOLDINGS COMPANY LIMITED

*Stock Code: 137*

# 2016 ANNUAL REPORT

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Ng Siu Fai, *Chairman*
Ng Kam Wah Thomas, *Managing Director*
Ng Ki Hung Frankie
Ho Suk Lin

### Independent Non-executive Directors

Cui Jianhua
Tsui Che Yin Frank
William Yau

## AUDIT COMMITTEE

Tsui Che Yin Frank, *Chairman*
Cui Jianhua
William Yau

## REMUNERATION COMMITTEE

Cui Jianhua, *Chairman*
Tsui Che Yin Frank
William Yau

## NOMINATION COMMITTEE

Cui Jianhua, *Chairman*
Tsui Che Yin Frank
William Yau

## COMPANY SECRETARY

Ho Suk Lin

## AUDITOR

Grant Thornton Hong Kong Limited
*Certified Public Accountants*

## SHARE LISTING

The Company's shares are listed on the Hong Kong Stock Exchange (stock code: 137)

## PRINCIPAL BANKERS

Commerzbank Aktiengesellschaft
Credit Suisse AG
HSH Nordbank AG
The Hongkong and Shanghai Banking Corporation Limited
Mizuho Bank, Ltd.
Sumitomo Mitsui Banking Corporation

## SHARE REGISTRAR

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

26th Floor
Yardley Commercial Building
1-6 Connaught Road West
Hong Kong

## CONTACTS

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## WEBSITE

www.jinhuiship.com

# Chairman's Statement

The Board is pleased to present the annual report of **Jinhui Holdings Company Limited** for the financial year 2016.

Year 2016 had been the worst year for dry bulk shipping market. With the backdrop of a prolonged oversupply in tonnages, the dry bulk shipping market was extremely tough in the early months of 2016 due to an unexpected fall of global seaborne activities. The unexpected difficult market environments inevitably added tremendous liquidity pressures to ship owners. The vessels asset prices and freight rates had gone in a downward spiral given the literal meltdown of confidence and freight rates were bottoming below ship owners' operating costs. The market has since rebounded significantly from its trough and while we believed the market would continue to recover where a better balance of demand and supply of tonnages, the volatility in freight rates had deeply dent our business performance, as well as the carrying value of our shipping assets and financial assets.

The Group's revenue for the year was HK$467,649,000 whereas HK$799,038,000 was reported for the year 2015. The loss attributable to shareholders of the Company for the year was HK$805,394,000 as compared to a loss of HK$1,683,183,000 for the year 2015. Basic loss per share was HK$1.519 for the year as compared to basic loss per share of HK$3.174 for the year 2015. The substantial net losses for both years were mainly attributable to the recognition of impairment loss on owned vessels of HK$881,478,000 in 2016 and HK$2,535,083,000 in 2015 in the annual test for impairment on owned vessels for both years and impairment loss on assets held for sale (disposed vessels) of HK$354,602,000 recognized upon reclassification to assets held for sale of two Panamaxes, five Supramaxes and one Handymax for which the Group entered into disposal agreements and relevant disposals were completed in 2016. The disposal of the eight vessels represented an opportunity for the Group to readjust its fleet profile and reduce our operational risk exposures in current high-risk volatile markets and the disposal of the vessels will improve the liquidity position of the Group. Given the unpredictable and often high earnings volatility in our industry, the disposal of the vessels can further reduce our debt service pressure from both principal repayments and interest payments in an expected rising interest rate environment. The impairment losses on owned vessels and assets held for sale (disposed vessels) are non-cash in nature and do not have impact on the operating cash flows of the Group.

We continue to see uncertainties towards the recovery and its sustainability in dry bulk shipping market and we believe it will be prudent to periodically reduce indebtedness and enhance our liquidity when such opportunities arise. Despite the market improved later in the year, we continue to see uncertainty and market volatility remaining as an operational risk to the Group. In order to further reduce operational risk and liquidity risk, we believe it is prudent for the Group to readjust the fleet size and lower the overall indebtedness and it is vital to remain financially nimble in today's tough and ever-changing market environment. The overall recovery in dry bulk shipping market require a stronger demand and supply rebalance through slowing fleet growth, layups and scrapping of tonnages.

# Chairman's Statement

We are in a relatively fortunate position where we have no capital expenditure commitment in relation to newbuilding contracts, as well as no charter-in contracts at this juncture. Looking ahead, we will continue to focus on taking sensible and decisive actions to maintain a strong financial position. We will continuously monitor the market as well as our operations going forward and will maintain a young and modern fleet, not ruling out any future disposal or acquisition of vessels and will make such decisions on an ad hoc basis to readjust our fleet size in order to sail through the current storm by placing further emphasis on prudence and stability as our core objectives going forward. We will continue to operate with a conservative yet nimble mindset, and be ready to act in the best interest of our shareholders under different kinds of scenarios. We will exercise our best efforts to be one of the survivors, a trustworthy partner to those who support us, and be a long term preferred vessel provider to our customers.

I would like to take this opportunity to express my gratitude to my colleagues on the Board for their valuable contribution and to the staff for their hard work, commitment and dedication throughout the year.

By Order of the Board

**Ng Siu Fai**
*Chairman*

Hong Kong, 20 March 2017

# Strategies and Business Profile

The Company was incorporated with limited liability in Hong Kong on 23 April 1991 and listed on the Hong Kong Stock Exchange (stock code: 137) on 6 December 1991 as the holding company for a number of ship owning and ship chartering subsidiaries. Since 1992, the Company started diversification of businesses such as trading and investments in various industries in China. Following a reorganization in June 1994, Jinhui Shipping and Transportation Limited became the immediate holding company of the shipping group. In order to generate international interest in Jinhui Shipping, it has been listed on the Oslo Stock Exchange, Norway (stock code: JIN) since October 1994.

## STRATEGIES

The Group's fleet comprise principally of Supramax class vessels, a larger and more efficient Handymax design that enjoys increasing demand from customers around the world. The Group will focus on taking sensible and decisive actions, maintaining a strong financial position and moderate leverage, not ruling out a reduction in fleet size in order to sail through the current storm by placing further emphasis on prudence and stability as our core objectives going forward and seek to be a preferred vessel provider for customers.

On the commercial side, our strategy is to maintain a flexible chartering policy to achieve an optimal balance between longer term time charterparties which generate a robust cash inflow, and spot exposure which allows the Group to take advantage of any upside in future charter rates. We will also further boost up our risk management efforts with the objective to minimize potential counterparty risks.

## SHIPPING BUSINESS

The Group operates its worldwide shipping activities through Jinhui Shipping, an approximately 54.77% owned subsidiary of the Company as at date of this annual report.

The Group's shipping activities began in the mid 1980's, principally in the form of chartering dry bulk carriers worldwide. The Group masterminds a meticulous and complex shipping operation linking suppliers with end users around the world. Its chief task is to identify the exact requirements of customers and use suitable vessels to carry bulk cargoes for specific voyages or periods of time.

The Group operates a modern fleet of dry bulk carriers which are either used for carrying cargoes or time chartered-out to other shipping operators whichever is expected to bring a higher economic benefit to the Group.

The key success factors in the ship chartering business are timing, performance and relationship. Ship charterers have to know their customers and suppliers well, building up mutual trust and respect. It is in this important area that the Group has always excelled, helping to cement contracts and maintain reasonable business flow even during difficult periods when the economy is weak.

It is the Group's policy to comply with all applicable environmental rules and regulations in its shipping operations as well as in its daily working environment to avoid the emission of noxious liquids into the environment. The Group's owned vessels are well maintained and we place great emphasis on the operation in compliance with safety and environmental laws and regulations including but not limited to ISM Code, ISPS Code, MARPOL and other applicable rules regulated by IMO. We ensure all crew on board are trained and certificated in accordance with STCW Convention. Our owned vessels are also subject to the laws, regulations and rules of each country and port they visit. We have developed policies and procedures intended to ensure our compliance with these laws, regulations and rules.

# Strategies and Business Profile

## SHIPPING BUSINESS *(Continued)*

### Owned Vessels

As at 31 December 2016, the Group had twenty eight owned vessels and 576 crew employed on board.

| Name | Type | Built | Builder | Size (dwt) |
|---|---|---|---|---|
| Jin Lang | Post-Panamax | 2010 | Jiangsu New Yangzi | 93,279 |
| Jin Mei | Post-Panamax | 2010 | Jiangsu New Yangzi | 93,204 |
| Jin Xiang | Supramax | 2012 | Oshima | 61,414 |
| Jin Hong | Supramax | 2011 | Oshima | 61,414 |
| Jin Feng* | Supramax | 2011 | STX (Dalian) | 57,352 |
| Jin Sui | Supramax | 2008 | Shanghai Shipyard | 56,968 |
| Jin Tong | Supramax | 2008 | Shanghai Shipyard | 56,952 |
| Jin Yue | Supramax | 2010 | Shanghai Shipyard | 56,934 |
| Jin Gang | Supramax | 2009 | Shanghai Shipyard | 56,927 |
| Jin Ao | Supramax | 2010 | Shanghai Shipyard | 56,920 |
| Jin Ji | Supramax | 2009 | Shanghai Shipyard | 56,913 |
| Jin Wan | Supramax | 2009 | Shanghai Shipyard | 56,897 |
| Jin Jun | Supramax | 2009 | Shanghai Shipyard | 56,887 |
| Jin Xing | Supramax | 2007 | Oshima | 55,496 |
| Jin Yi | Supramax | 2007 | Oshima | 55,496 |
| Jin Yuan | Supramax | 2007 | Oshima | 55,496 |
| Jin Heng* | Supramax | 2010 | Nantong Kawasaki | 55,091 |
| Jin Mao* | Supramax | 2009 | Oshima | 54,768 |
| Jin Shun* | Supramax | 2009 | Oshima | 54,768 |
| Jin Cheng | Supramax | 2003 | Oshima | 52,961 |
| Jin Sheng | Supramax | 2006 | IHI | 52,050 |
| Jin Yao | Supramax | 2004 | IHI | 52,050 |
| Jin Quan | Supramax | 2002 | Oshima | 51,104 |
| Jin Ping | Supramax | 2002 | Oshima | 50,777 |
| Jin Fu | Supramax | 2001 | Oshima | 50,777 |
| Jin Li | Supramax | 2001 | Oshima | 50,777 |
| Jin Zhou | Supramax | 2001 | Mitsui | 50,209 |
| Jin Yu | Handysize | 2012 | Naikai Zosen | 38,462 |
| | | | | 1,602,343 |

*Note:*

* These vessels were contracted to be disposed to third parties with expected delivery dates between 1 March 2017 to 15 April 2017. After the disposal of these vessels, total carrying capacity of the Group's fleet will be reduced from deadweight 1,602,343 metric tons to 1,380,364 metric tons.

# Highlights

While the Group's expertise for its ship chartering business remains in Asia, by deploying a flexible and responsive sales strategy as well as an efficient fleet of vessels, the Group managed to serve a balancing portfolio of customers of our ship chartering business geographically during the year.

## Loading Ports Analysis

| *(Expressed as a percentage of revenue for chartering freight and hire)* | 2016<br>% | 2015<br>% |
|---|---|---|
| Asia excluding China | 56.1 | 41.8 |
| China | 22.7 | 22.6 |
| Australia | 8.5 | 16.3 |
| North America | 3.3 | 6.1 |
| Africa | 3.3 | 1.8 |
| South America | 2.9 | 3.9 |
| Europe | 1.6 | 6.2 |
| Others | 1.6 | 1.3 |
| | 100.0 | 100.0 |

## Discharging Ports Analysis

| *(Expressed as a percentage of revenue for chartering freight and hire)* | 2016<br>% | 2015<br>% |
|---|---|---|
| China | 63.1 | 56.1 |
| Asia excluding China | 33.7 | 37.2 |
| Africa | 1.5 | 0.9 |
| South America | 1.0 | 1.0 |
| North America | 0.3 | 1.0 |
| Europe | – | 2.9 |
| Others | 0.4 | 0.9 |
| | 100.0 | 100.0 |

## Types of Cargoes carried by the Group's Fleet

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Metric Tons *(in '000)* | % | Metric Tons *(in '000)* | % |
| Minerals | 11,276 | 55.0 | 11,620 | 61.3 |
| Coal | 4,247 | 20.7 | 2,266 | 12.0 |
| Steel products | 3,588 | 17.5 | 3,684 | 19.5 |
| Cement | 766 | 3.7 | 573 | 3.0 |
| Agricultural products | 581 | 2.8 | 681 | 3.6 |
| Fertilizer | 32 | 0.2 | 78 | 0.4 |
| Alumina | 30 | 0.1 | 40 | 0.2 |
| | 20,520 | 100.0 | 18,942 | 100.0 |

# Highlights

## KEY PERFORMANCE INDICATORS FOR SHIPPING BUSINESS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Average daily time charter equivalent rate [1] | **38** | 50 |
| Daily vessel running cost [2] | **29** | 32 |
| Daily vessel depreciation [3] | **21** | 31 |
| Daily vessel finance cost [4] | **3** | 3 |
| | **53** | 66 |
| Average utilization rate [5] | **98%** | 98% |

As at 31 December 2016, the Group had twenty eight owned vessels. Average daily time charter equivalent rate dropped 24% to US$4,871 (approximately HK$38,000) for the year 2016 as compared to US$6,412 (approximately HK$50,000) for the year 2015 in the prevailing weak dry bulk shipping market. Daily vessel running cost dropped 10% from US$4,072 (approximately HK$32,000) for the year 2015 to US$3,684 (approximately HK$29,000) for the year 2016. The decrease was attributable to the Group's continuing effort on cost reduction strategy in order to remain competitive in the current tough market environment. Daily vessel depreciation dropped due to the recognition of substantial impairment loss on owned vessels in 2015 which led to the adjustment and reduction in depreciation to reflect the adjusted carrying amount of owned vessels. However, daily vessel finance cost increased 16% from US$359 (approximately HK$2,800) for the year 2015 to US$415 (approximately HK$3,200) for the year 2016 due to the rising interest rates on both market LIBOR and increased margin on the rescheduling of indebtedness arrangement. Fleet utilization rate remained at 98% for both years 2016 and 2015. We will intimately monitor cargo flows in order to deploy our vessels efficiently to optimize revenue and fleet utilization rate and we will keep costs in check to enhance our margins beyond the current crisis.

*Notes:*

1. Average daily time charter equivalent rate is calculated as the time charter revenue, and voyage revenue less voyage expenses divided by the number of available days in the year.

2. Daily vessel running cost is calculated as the aggregate of crew expenses, insurance, consumable stores, spare parts, repairs and maintenance and other vessels' miscellaneous expenses divided by ownership days in the year.

3. Daily vessel depreciation is calculated as the aggregate of vessels' depreciation charge divided by ownership days in the year.

4. Daily vessel finance cost is calculated as the aggregate of vessels' finance costs divided by ownership days in the year.

5. Average utilization rate is calculated as the number of operating days divided by the number of available days in the year.

## FIVE-YEAR FINANCIAL SUMMARY

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Key Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income** | | | | | |
| Revenue | | | | | |
| – Continuing operation | **467,649** | 673,163 | 1,031,541 | 1,696,516 | 1,825,477 |
| – Discontinued operation | **–** | 125,875 | 278,379 | 255,684 | 278,948 |
| | **467,649** | 799,038 | 1,309,920 | 1,952,200 | 2,104,425 |
| Net profit (loss) for the year | | | | | |
| – Continuing operation | **(1,472,496)** | (3,011,850) | (682,700) | 209,073 | 282,309 |
| – Discontinued operation | **–** | (10,099) | (4,552) | 1,523 | (2,891) |
| | **(1,472,496)** | (3,021,949) | (687,252) | 210,596 | 279,418 |
| Other comprehensive income (loss) | **(228)** | 33,746 | (1,200) | (600) | 400 |
| Total comprehensive income (loss) for the year | **(1,472,724)** | (2,988,203) | (688,452) | 209,996 | 279,818 |
| Total comprehensive income (loss) for the year attributable to: | | | | | |
| Shareholders of the Company | **(805,542)** | (1,649,437) | (381,123) | 120,158 | 155,165 |
| Non-controlling interests | **(667,182)** | (1,338,766) | (307,329) | 89,838 | 124,653 |
| | **(1,472,724)** | (2,988,203) | (688,452) | 209,996 | 279,818 |
| **Other Financial Information** | | | | | |
| Basic earnings (loss) per share | | | | | |
| – Continuing operation | **HK$(1.519)** | HK$(3.160) | HK$(0.710) | HK$0.225 | HK$0.296 |
| – Discontinued operation | **–** | HK$(0.014) | HK$(0.006) | HK$0.003 | HK$(0.004) |
| | **HK$(1.519)** | HK$(3.174) | HK$(0.716) | HK$0.228 | HK$0.292 |

## FIVE-YEAR FINANCIAL SUMMARY *(Continued)*

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Key Items in the Consolidated Statement of Financial Position** | | | | | |
| Non-current assets | **3,015,967** | 4,922,107 | 7,800,363 | 8,511,796 | 9,594,795 |
| Current assets | **816,880** | 1,229,210 | 2,069,398 | 2,808,239 | 2,333,029 |
| Current liabilities | **(407,432)** | (873,452) | (778,501) | (1,042,212) | (1,154,583) |
| Non-current liabilities | **(1,446,577)** | (1,826,303) | (2,641,376) | (3,139,487) | (3,844,901) |
| Net assets | **1,978,838** | 3,451,562 | 6,449,884 | 7,138,336 | 6,928,340 |
| Issued capital | **381,639** | 381,639 | 381,639 | 53,029 | 53,029 |
| Reserves | **792,247** | 1,597,789 | 3,247,226 | 3,956,959 | 3,836,801 |
| Equity attributable to shareholders of the Company | **1,173,886** | 1,979,428 | 3,628,865 | 4,009,988 | 3,889,830 |
| Non-controlling interests | **804,952** | 1,472,134 | 2,821,019 | 3,128,348 | 3,038,510 |
| Total equity | **1,978,838** | 3,451,562 | 6,449,884 | 7,138,336 | 6,928,340 |
| **Other Financial Information** | | | | | |
| Gearing ratio | **52%** | 43% | 24% | 31% | 40% |

# Corporate Governance Report

## CORPORATE GOVERNANCE PRINCIPLES

Jinhui Holdings is committed to promoting good corporate governance, with the objectives of the maintenance of responsible decision making; the improvement in transparency and disclosure of information to shareholders; the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders; and the improvement in management of risk and the enhancement of performance by the Group.

To this end, the Company has promulgated a set of Company Code which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared and updated by referencing to the principles, code provisions and recommended best practices as set out in Appendix 14 of the Listing Rules. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices and ultimately ensuring high transparency and accountability to the Company's shareholders.

The Company has complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2016, with deviations explained in this corporate governance report.

## DIRECTORS

### The Board

The Company is headed by an effective Board which assumes responsibility for its leadership and control and is collectively responsible for promoting the success of the Company by directing and supervising the Company's businesses and affairs.

The Board meets regularly and board meetings are held at least four times a year at approximately quarterly intervals. Such board meetings involve the active participation, either in person or through electronic means of communication, of a majority of directors of the Company entitled to be present.

All Directors are given the opportunity to include items in the agenda for regular board meetings. Sufficient and reasonable notices have been given to ensure Directors are given opportunity to attend. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. Such minutes record in sufficient detail the matters considered and decisions reached. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the board meeting is held. Any Director may, in furtherance of his / her duties, take independent professional advice where necessary at the expense of the Company.

## DIRECTORS *(Continued)*

### The Board *(Continued)*

If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose associates, have no material interest in the transaction shall be present at such board meeting.

The Company has arranged for appropriate insurance cover for directors' and senior management's liabilities in respect of legal actions against its directors and senior management arising from corporate activities.

The Board meets regularly over the Company's affairs and operations. The attendance records of each member of the Board and board committees at meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee held in 2016, and the 2016 Annual General Meeting are set out below:

| | Number of meetings attended / held for the year 2016 | | | | |
|---|---|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **2016 Annual General Meeting** |
| **Executive Directors** | | | | | |
| Ng Siu Fai, *Chairman* | 7/7 | – | – | – | 1/1 |
| Ng Kam Wah Thomas, *Managing Director* | 7/7 | – | – | – | 1/1 |
| Ng Ki Hung Frankie | 7/7 | – | – | – | 1/1 |
| Ho Suk Lin | 7/7 | – | – | – | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Cui Jianhua | 6/7 | 3/3 | 1/1 | 1/1 | 1/1 |
| Tsui Che Yin Frank | 6/7 | 3/3 | 1/1 | 1/1 | 1/1 |
| William Yau | 6/7 | 3/3 | 1/1 | 1/1 | 1/1 |

## DIRECTORS *(Continued)*

### Chairman and Chief Executive

**CG Code provision A.2.1** Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Ng Siu Fai and Mr. Ng Kam Wah Thomas are brothers who act as the Chairman and the Managing Director of the Company respectively. Mr. Ng Siu Fai, in addition to his duties as the Chairman, is also responsible for the strategic planning and overseeing all aspects of the Group's operations. This constitutes deviation from code provision A.2.1 of the CG Code as part of his duties overlap with those of the Managing Director, who is in practice the chief executive.

As one of the founders of the Group, Mr. Ng Siu Fai has extensive experience and knowledge in the core businesses of the Group and his duty for overseeing all aspects of the Group's operations is clearly beneficial to the Group. The Board also considers that this will not impair the balance of power and authority between the Board and the management of the Company as one-third of the Board members are represented by the independent non-executive directors and the Board will meet regularly to consider major matters affecting the operations of the Group and all Directors are properly briefed on the matters arising at the Board meetings with adequate, complete and reliable information received in a timely manner. The current structure also allows flexibility and enhances the efficiency of decision making process in response to the constantly changing competitive environment.

As the Chairman's major responsibility is to manage the Board whereas the Managing Director's major responsibility is to manage the Group's businesses, the Board considers that the responsibilities of the Chairman and the Managing Director are clear and distinctive and hence written terms thereof are not necessary. Although the respective responsibilities of the Chairman and the Managing Director are not set out in writing, power and authority are not concentrated in any one individual and all major decisions are made in consultation with members of the Board and appropriate board committees, as well as senior management.

Going forward, the Board will periodically review the effectiveness of this arrangement, the board composition as well as division of responsibilities to enhance best interests of the Company and its shareholders as a whole.

The Chairman ensures that all Directors are properly briefed on the issues arising at the Board meetings and all Directors receive adequate, complete and reliable information. Throughout the year, the Chairman provides leadership for the Board; ensures that the Board and board committees function effectively and perform their responsibilities; ensures that good corporate governance practices and procedures are established; and ensures necessary steps are taken to provide effective communication with shareholders. The Board believes that Mr. Ng Siu Fai's appointment to the post of Chairman is beneficial to the business prospects and management of the Company.

## DIRECTORS *(Continued)*

### Board composition

The Board includes a balanced composition of executive and non-executive directors with a balance of skills and experience appropriate for the business of the Company.

The Board comprises a total of seven Directors, with four executive directors, Mr. Ng Siu Fai (Chairman), Mr. Ng Kam Wah Thomas (Managing Director), Mr. Ng Ki Hung Frankie and Ms. Ho Suk Lin; and three independent non-executive directors, Mr. Cui Jianhua, Mr. Tsui Che Yin Frank and Mr. William Yau.

Biographical details of the Directors and the relationships (including financial, business, family or other material or relevant relationships) among members of the Board are set out on pages 38 and 39.

During the year, the Board is assisted by three board committees which are Audit Committee, Remuneration Committee and Nomination Committee. Their existence does not reduce the responsibility of the Board as a whole. Board committee meetings are convened to prepare matters for consideration and final decision by the Board as a whole. Material information that comes to the attention of board committees are also communicated to other members of the Board. As a general principle, the board committees have an advisory role to the Board. They assist the Board in specific areas and make recommendations to the Board. However, only the Board has the power to make final decisions.

During the year, the Board has at all times complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive director has made an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines as set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

All independent non-executive directors are expressively identified in all corporate communications that disclose the names of directors while a list of directors identifying their roles and functions is maintained on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.jinhuiship.com.

### Appointments and re-election of directors

The independent non-executive directors of the Company are appointed for specific terms and subject to retirement by rotation at least once every three years and re-appointed at annual general meeting of the Company. Formal letters of appointment with specific terms with independent non-executive directors are arranged.

## DIRECTORS *(Continued)*

### Appointments and re-election of directors *(Continued)*

**CG Code provision A.4.2** Under code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company, all Directors other than the Chairman and the Managing Director shall be subject to retirement by rotation at least once every three years and any new directors appointed to fill casual vacancies or as an addition to the Board shall be subject to election by shareholders at the annual general meeting after their appointments.

As the Chairman and the Managing Director are not subject to retirement by rotation in accordance with the Articles of Association of the Company, this constitutes deviation from code provision A.4.2 of the CG Code. The Board is of the view that the leadership of the Chairman and the Managing Director is vital to the Group's business continuity and stability, and there should be planned and orderly succession for these offices. Since continuation is a key factor to the successful implementation of the Company's business plans and strategies, any Director holding the office as the Chairman or the Managing Director should therefore be exempted from the retirement by rotation and re-election at the Company's annual general meeting and the Board believes this arrangement is most beneficial to the Company and its shareholders.

### Re-election of independent non-executive directors

Mr. Cui Jianhua has served as an independent non-executive director since 1993. As Mr. Cui has served the Company for more than nine years, and he was subject to re-election as an independent non-executive director at the 2016 Annual General Meeting, the Board assessed and considered that Mr. Cui's independence was not affected by his long service with the Company. Mr. Cui met the independence guideline as set out in Rule 3.13 of the Listing Rules. He has been independent of the management and free from any business or other relationship or circumstances which would materially interfere with the exercise of his independent judgement. His further appointment which was subject to a separate resolution had been approved by Shareholders at the 2016 Annual General Meeting held on 12 May 2016.

## DIRECTORS *(Continued)*

### Nomination Committee

The Nomination Committee was established on 1 January 2013, currently comprising three independent non-executive directors, Mr. Cui Jianhua (chairman of Nomination Committee), Mr. Tsui Che Yin Frank and Mr. William Yau. The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors. The Nomination Committee shall meet at least once a year. The Nomination Committee is provided with sufficient resources to perform its duties and has access to independent professional advice if necessary.

The terms of reference of the Nomination Committee, explaining its roles and authorities delegated to it by the Board was published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

During the year, the Nomination Committee held a meeting to review the structure, size and composition of the Board, and make recommendations to the Board.

### Responsibilities of directors

A Guide on Directors' duties issued by the Companies Registry has been provided to each Director. A comprehensive induction package designed to provide a general understanding of the Group, its business, the operations of the Board and the main issues it faces, and, if appropriate, an overview of the additional functions and responsibilities of non-executive directors will be provided to newly appointed directors. To assist Directors bringing informed decisions in the best interests of the Company and the shareholders, an information package comprising the latest developments in the legislations and industry news are forwarded to each Director from the Company Secretary periodically.

Directors are aware sufficient time and attention could be given to the affairs of the Company and ensure that their contribution to the Board remains informed and relevant by participating in continuous professional development.

The Board has the responsibility of development and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risks. The Board is responsible for arranging appropriate insurance coverage and organizing the Group's wide risk reporting.

## DIRECTORS *(Continued)*

### Responsibilities of directors *(Continued)*

The Board is satisfied with continuous professional development undertaken by respective Directors. During the year, Mr. Ng Siu Fai, Mr. Ng Kam Wah Thomas, Mr. Ng Ki Hung Frankie, Ms. Ho Suk Lin, Mr. Cui Jianhua, Mr. Tsui Che Yin Frank and Mr. William Yau participated in continuous professional development by perusing comprehensive papers focusing on the regulatory changes and corporate governance related matters published by relevant authorities and professional bodies. In addition, Ms. Ho Suk Lin and Mr. Tsui Che Yin Frank, who have appropriate professional qualifications in accounting and related financial management expertise, further confirmed that they had attended adequate continuous professional development courses and seminars held by relevant authorities and professional bodies.

### Securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out therein throughout the year ended 31 December 2016.

### Supply of and access to information

Directors are provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities. For regular board meetings, agenda and accompanying board papers are sent in a timely manner and at least three days before the intended date of a board or board committee meeting (or other agreed period). The board and individual directors have separate and independent access to the Company's senior management. All Directors are entitled to have access to board papers and related materials.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### Remuneration Committee

The Remuneration Committee was established on 25 August 2005, currently comprising three independent non-executive directors, Mr. Cui Jianhua (chairman of Remuneration Committee), Mr. Tsui Che Yin Frank and Mr. William Yau.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

### Remuneration Committee *(Continued)*

The roles and functions of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, and reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. It also makes recommendations to the Board on the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind, pension rights and compensation payments, and the remuneration of the independent non-executive directors. The Remuneration Committee should consider factors such as the performance of Executive Directors and senior management, the profitability of the Group, salaries paid by comparable companies, time commitment and responsibilities, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Group. The Remuneration Committee shall meet at least once a year. The Remuneration Committee is provided with sufficient resources to perform its duties and has access to independent professional advice if necessary.

The terms of reference of the Remuneration Committee, explaining its roles and the authorities delegated to it by the Board was published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

During the year, the Remuneration Committee held a meeting to review and assess the management's remuneration proposals with reference to the corporate goals and objectives, and to make recommendations to the Board regarding the remuneration to individual executive directors and senior management. Details of the emoluments of the Directors and remuneration to senior management by band for the year are set out in note 11 to the consolidated financial statements.

## ACCOUNTABILITY AND AUDIT

### Financial reporting

It is the Board's responsibility to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. The Board presents such assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules, and for reports to regulators and information disclosed under statutory requirements.

## ACCOUNTABILITY AND AUDIT *(Continued)*

### Financial reporting *(Continued)*

Management provides sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval. In this regard, the management provides all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details.

The Directors are responsible for preparing the consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. Appropriate accounting policies have also been used and applied consistently. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern. A statement by the auditor of the Company about auditor's responsibility on the consolidated financial statements of the Group is set out in "Independent Auditor's Report" on pages 49 to 53.

### Risk management and internal control

It is the Board's responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board also oversees management in the design, implementation and monitoring of the risk management and internal control systems on an ongoing basis, and management shall confirm to the Board on the effectiveness of these systems at least annually.

The Board, through the assistance of Audit Committee, has conducted an annual review of the effectiveness of the Group's risk management and internal control systems, covering all material financial, operational and compliance controls. In particular, the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Group's accounting and financial reporting functions are reviewed. The annual review also covered the Group's significant and emerging risks in shipping business; the quality of management's ongoing monitoring of risks and of the internal control systems; the extend and frequency of communication of monitoring results to the Audit Committee and the Board; whether there is any significant control failings or weaknesses identified and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance. For the year 2016, the review of the effectiveness of the Group's risk management and internal control systems has been conducted and certain key internal control systems have been independently reviewed by Grant Thornton Hong Kong Limited during the year and are reviewed by the Audit Committee on an ongoing basis so that the practical and effective systems are implemented. The Board is satisfied that such systems are effective and appropriate actions have been taken.

## ACCOUNTABILITY AND AUDIT *(Continued)*

### Risk management and internal control *(Continued)*

The risk management and internal control systems and accounting system of the Group are designed to identify and evaluate the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorized use or disposition, transactions are executed in accordance with management's authorization, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

The Group has a defined organizational structures with clear defined lines of responsibility and authority. Each business unit / department is accountable for its daily operations and is required to report to executive directors on a regular basis. Policies and procedures are set for each business unit / department, which includes approvals, authorization, verification, recommendations, performance reviews, assets security and segregation of duties. The key control procedures include establishing and maintaining effective policies to ensure proper management of risks to which the Group are exposed and taking appropriate and timely action to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders. At least twice a year, the management will report to the Audit Committee on the effectiveness of risk management and internal control systems. The Audit Committee review how management designs, implements and monitors risk management and internal control procedures, findings and recommendations and follow-up procedures on the annual assessment; and the Audit Committee will report on the overall effectiveness of the risk management and internal control systems to the Board annually. The Group's risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives. With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorized use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs. Details of the Group's risk management policies are set out in "Management Discussion and Analysis" on pages 34 to 36 and note 39 to the consolidated financial statements on pages 109 to 114.

## ACCOUNTABILITY AND AUDIT *(Continued)*

### Risk management and internal control *(Continued)*

**CG Code provision C.2.5** Under code provision C.2.5 of the CG Code, the Group should have an internal audit function. Based on the size and simple operating structure of the Group as well as the existing internal control processes, the Board has decided not to set up an internal audit department for the time being. When necessary, the Audit Committee under the Board would carry out the internal audit function for reviewing the adequacy and effectiveness of the risk management and internal control systems of the Group.

Except for the deviation of code provision C.2.5 of the CG Code, the Board considers that the Company has complied with the requirements under the Listing Rules regarding the risk management and internal control, and will continue to review, revise and strengthen its risk management and internal control from time to time so that practical and effective systems are implemented.

### Audit Committee

The Audit Committee was established on 22 September 1998, currently comprises of three independent non-executive directors, Mr. Tsui Che Yin Frank (chairman of Audit Committee), Mr. Cui Jianhua and Mr. William Yau. The primary duties of the Audit Committee include the review of the Group's financial reporting, the nature and scope of audit review as well as the effectiveness of the systems of risk management and internal control and compliance. The Audit Committee is also responsible for making recommendations in relation to the appointment, re-appointment and removal of the auditor and reviewing and monitoring the auditor's independence and objectivity. In addition, the Audit Committee discusses matters raised by the auditor and regulatory bodies to ensure that appropriate recommendations are implemented. The Audit Committee shall meet at least twice a year. The Audit Committee is provided with sufficient resources to perform its duties and has access to independent professional advice if necessary.

The terms of reference of the Audit Committee, explaining its roles and the authorities delegated to it by the Board was published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

During the year, the Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters including the review of the Company's interim and annual reports before submission to the Board. The Audit Committee held three meetings in 2016. The Group's annual consolidated financial statements for the year ended 31 December 2016 and interim consolidated financial statements for the period ended 30 June 2016 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

## DELEGATION BY THE BOARD

### Management functions

While the Board is entrusted with the overall responsibility for promoting the success of the Company by the strategic direction and governance of the Company's businesses and affairs, the functions of implementing the approved strategy and policies as well as managing the day-to-day operations are delegated to the management, comprises of executive directors and senior management of the Company.

The Company formalizes the functions reserved to the Board and those delegated to the management. Formal letters of appointment for Directors setting out the key terms and conditions of their appointments are arranged. Such arrangements are subject to periodically review to ensure they remain appropriate to the Company's needs.

The Board delegates aspects of its management and administration functions to the management and it gives clear directions as to the management's powers, in particular, where the management should report back and obtain prior Board's approval before making decisions or entering into any commitments on the Company's behalf.

The list of executive directors and senior management and their biographical details are set out on pages 38 and 39.

### Board committees

Board committees are established with clear specific terms of reference which deal clearly with their authority and duties that enable such committees to discharge their functions properly. Such terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee require such committees to report back to the Board on their decisions or recommendations.

### Corporate governance functions

The Board is responsible for developing and reviewing the Company's policies and practices on corporate governance and performing the corporate governance duties as set out in CG Code provision D.3.1. The following is a non-comprehensive summary of the duties performed by the Board for the year:

- Reviewed and monitored the training and continuous professional development of Directors;
- Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- Reviewed and monitored the code of conduct applicable to employees and Directors; and
- Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## COMMUNICATION WITH SHAREHOLDERS

### Effective communication

The Board endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings or other general meetings to communicate with shareholders and encourage their participation. At each general meeting, a separate resolution is proposed by the chairman of that meeting and the resolutions are not bundled. The chairman of the Board and the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee shall attend and answer questions at the annual general meetings.

In order to further promote effective communication, the Company maintains a website to disseminate information electronically on a timely basis and the Board shall review the effectiveness of shareholders' communication policy on a regular basis.

The 2017 Annual General Meeting of the Company will be held on Friday, 19 May 2017. Notice of the Annual General Meeting will be published at least twenty clear business days before the meeting on the websites of Hong Kong Exchanges and Clearing Limited and the Company, and will be despatched to shareholders of the Company in due course.

The register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2017 Annual General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 15 May 2017.

### Voting by poll

Shareholders of the Company are entitled to attend shareholders' meeting in person or by proxy. The Company informs the shareholders of the procedures for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Articles of Association of the Company.

## COMPANY SECRETARY

Ms. Ho Suk Lin has been appointed by the Board as Company Secretary of the Company since 1991. Ms. Ho is responsible for advising the Board through the Chairman and / or the chief executive on governance matters and also facilitating induction and professional development of Directors. All Directors have access to the advice and services of the Company Secretary to ensure that all Board procedures and rules and regulations are followed.

## AUDITOR'S REMUNERATION

The performance of the auditor of the Company during the year has been reviewed by the Audit Committee. In 2016, the remuneration paid and payable to the auditor of the Company for the provision of the Group's audit services and other services were HK$1,500,000 and HK$347,000 respectively. The other services mainly include interim review, tax compliance services and review of internal control systems.

## SHAREHOLDERS' RIGHT

### Procedures for shareholders to call a general meeting

For shareholder(s) of the Company who wish to call a general meeting, the shareholder(s) is / are requested to follow the requirements and procedures as set out in Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings can make a request to call a general meeting of the Company.

The request (a) must state the general nature of the business to be dealt with at the meeting; (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting; (c) may consist of several documents in like form; (d) may be sent to the registered office of the Company in hard copy form or in electronic form; and (e) must authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Directors must call a general meeting within twenty one days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than twenty eight days after the date of the notice convening the meeting. If the Directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than three months after the date on which the Directors become subject to the requirement to call a general meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the Directors duly to call a general meeting.

## SHAREHOLDERS' RIGHT *(Continued)*

### Procedures for shareholders to circulate a resolution for annual general meeting

For shareholder(s) of the Company who wish to make a request to circulate a resolution for an annual general meeting, the shareholder(s) is / are requested to follow the requirements and procedures as set out in Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Shareholder(s) can make a request to circulate a resolution for an annual general meeting pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) if: (a) they represent at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least fifty shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The request (a) may be sent to the registered office of the Company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) six weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

### Shareholders' enquiries

The Chairman as well as the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, and all Directors are normally available at the annual general meeting to answer shareholders' enquiries, unless illness or another pressing commitment precludes them from doing so. Shareholders are also invited to ask questions during the meeting and have an opportunity to meet with Directors after the formal business of the meeting has been concluded. Shareholders could also direct their questions about their shareholdings to the Company's share registrar.

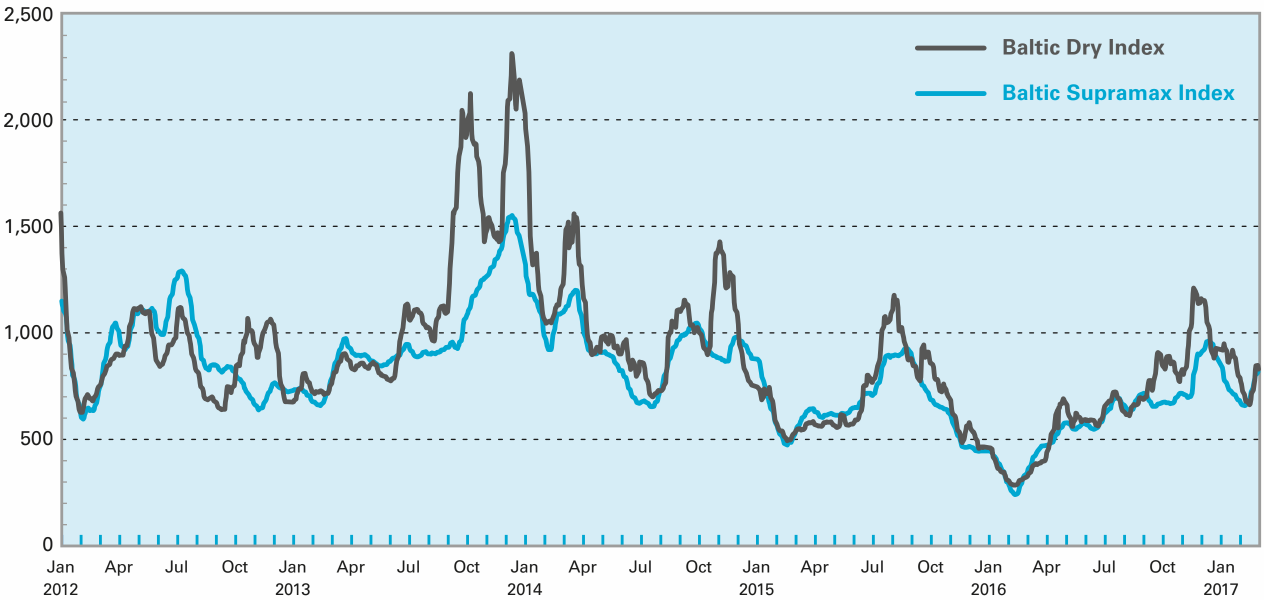
# Management Discussion and Analysis

## BUSINESS REVIEW

The Group operates its worldwide shipping activities through Jinhui Shipping and Transportation Limited, an approximately 54.77% owned subsidiary of the Company, whose shares are listed on the Oslo Stock Exchange, Norway.

Year 2016 had been the worst year for dry bulk shipping market. With the backdrop of a prolonged oversupply in tonnages, the dry bulk shipping market was extremely tough in the early months of 2016 due to an unexpected fall of global seaborne activities. The unexpected difficult market environments inevitably added tremendous liquidity pressures to ship owners. The vessels asset prices and freight rates had gone in a downward spiral given the literal meltdown of confidence and freight rates were bottoming below ship owners' operating costs. The Baltic Dry Index hit new historical lows at 290 points in February 2016. The dry bulk commodities market and shipping market had regained some momentums since March 2016 and it was widely believed that the dry bulk shipping market was bottoming out as both freight rates and vessels values tend to move in an upward trend. While we believed the market would continue to recover where a better balance of demand and supply of tonnages, the volatility in freight rates had deeply dent our business performance, as well as the carrying value of our shipping assets and financial assets. We continue to see uncertainties towards the recovery and its sustainability in dry bulk shipping market and we believe it will be prudent to periodically reduce indebtedness and enhance our liquidity when such opportunities arise. Despite the market improved later in the year, we continue to see uncertainty and market volatility remaining as an operational risk to the Group. In order to further reduce operational risk and liquidity risk, we believe it is prudent for the Group to readjust the fleet size and lower the overall indebtedness and it is vital to remain financially nimble in today's tough and ever-changing market environment. The overall recovery in dry bulk shipping market require a stronger demand and supply rebalance through slowing fleet growth, layups and scrapping of tonnages.

**Baltic Dry Index & Baltic Supramax Index**




*Source: Bloomberg*

## BUSINESS REVIEW *(Continued)*

| Average daily time charter equivalent rates | 2016<br>US$ | 2015<br>US$ |
|---|---|---|
| Post-Panamax / Panamax fleet | **4,475** | 5,456 |
| Supramax / Handymax / Handysize fleet | **4,922** | 6,519 |
| In average | **4,871** | 6,412 |

The average daily time charter equivalent rate earned by the Group's fleet dropped 24% to US$4,871 (approximately HK$38,000) for the year 2016 as compared to US$6,412 (approximately HK$50,000) for the year 2015 when certain charter contracts were entered into with charterers at relatively low freight rates at spot market.

| Key Performance Indicators for Shipping Business | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Average daily time charter equivalent rate | **38** | 50 |
| Daily vessel running cost | **29** | 32 |
| Daily vessel depreciation | **21** | 31 |
| Daily vessel finance cost | **3** | 3 |
| | **53** | 66 |
| Average utilization rate | **98%** | 98% |

As at 31 December 2016, the Group had twenty eight owned vessels. Average daily time charter equivalent rate dropped 24% to US$4,871 (approximately HK$38,000) for the year 2016 as compared to US$6,412 (approximately HK$50,000) for the year 2015 in the prevailing weak dry bulk shipping market. Daily vessel running cost dropped 10% from US$4,072 (approximately HK$32,000) for the year 2015 to US$3,684 (approximately HK$29,000) for the year 2016. The decrease was attributable to the Group's continuing effort on cost reduction strategy in order to remain competitive in the current tough market environment. Daily vessel depreciation dropped due to the recognition of substantial impairment loss on owned vessels in 2015 which led to the adjustment and reduction in depreciation to reflect the adjusted carrying amount of owned vessels. However, daily vessel finance cost increased 16% from US$359 (approximately HK$2,800) for the year 2015 to US$415 (approximately HK$3,200) for the year 2016 due to the rising interest rates on both market LIBOR and increased margin on the rescheduling of indebtedness arrangement. Fleet utilization rate remained at 98% for both years 2016 and 2015. We will intimately monitor cargo flows in order to deploy our vessels efficiently to optimize revenue and fleet utilization rate and we will keep costs in check to enhance our margins beyond the current crisis.

# Management Discussion and Analysis

## BUSINESS REVIEW *(Continued)*

The Group's strategy is to maintain a young and modern fleet to serve the growing needs of our customers. As at 31 December 2016, the Group had twenty eight owned vessels as follows:

| | Number of owned vessels |
|---|---|
| Post-Panamax fleet | 2 |
| Supramax fleet | 25 |
| Handysize fleet | 1 |
| **Total fleet** | **28** |

Given the abrupt changes in shipping market environment in 2016 and the overall unexpected volatility in the macro environment has caused a disruption in many markets including the dry bulk shipping market, which has gone through extreme wild swings within a very short timescale, we consider there is a change in the expectation of the long term intrinsic values since the Group's last review of our assets. In view of the significant decrease in market value of dry bulk vessels in the market, the management considered that impairment indication of the Group's fleet existed at end of 2016.

With due considerations of factors affecting the long term intrinsic values of owned dry bulk vessels in the impairment review, the Group's owned vessels' recoverable amounts which were determined based on value in use and were significantly less than their respective carrying amounts at end of 2016. Accordingly, an impairment loss of HK$881,478,000 on owned vessels was recognized at end of 2016 to reflect our change in the expectation on the long term global economic and the dry bulk shipping industry outlook which affect the assumptions applied in estimation of the value in use of our vessels. The impairment losses on owned vessels and assets held for sale (disposed vessels) are non-cash in nature and do not have impact on the operating cash flows of the Group. Long term financial stability is more important and defensive actions in reducing indebtedness and further increase of liquidity will ensure the Group to safely sail through any unexpected volatilities in the market going forward.

Subsequent to the reporting date, the Group entered into four memorandums of agreement on 24 February 2017 to dispose of four Supramaxes at a total consideration of US$48 million (approximately HK$374 million) with expected delivery dates between 1 March 2017 and 15 April 2017.

Looking ahead, we will continue to focus on taking sensible and decisive actions to maintain a strong financial position. We will continuously monitor the market as well as our operations going forward and will maintain a young and modern fleet, not ruling out any future disposal or acquisition of vessels and will make such decisions on an ad hoc basis to readjust our fleet size in order to sail through the current storm by placing further emphasis on prudence and stability as our core objectives going forward.

# Management Discussion and Analysis

## FINANCIAL REVIEW

**Revenue and operating loss.** The Group's revenue from continuing operation for the year dropped 31% from HK$673,163,000 in 2015 to HK$467,649,000 in 2016. The drop in the revenue was mainly due to the reduced number of owned vessels and the large exposure to spot market as freight rates kept declining to unexpectedly low level in early 2016. The substantial losses from continuing operation of HK$1,472,496,000 for the year 2016 and HK$3,011,850,000 for the year 2015 were also attributable to the recognition of impairment loss on owned vessels of HK$881,478,000 in 2016 and HK$2,535,083,000 in 2015 in the annual test for impairment on owned vessels for both years and impairment loss on assets held for sale (disposed vessels) of HK$354,602,000 recognized upon reclassification to assets held for sale of two Panamaxes, five Supramaxes and one Handymax for which the Group entered into disposal agreements and relevant disposals were completed in 2016. The impairment losses on owned vessels and assets held for sale (disposed vessels) are non-cash in nature and do not have impact on the operating cash flows of the Group.

**Other operating income.** Other operating income from continuing operation decreased from HK$266,100,000 for the year 2015 to HK$179,253,000 for the year 2016 due to the reduced settlement income received from charterers in relation to repudiation claims from HK$183,271,000 in 2015 to HK$43,841,000 in 2016. The Group will continue to seek all legal means to recover the amounts granted in the arbitration awards.

**Shipping related expenses.** Shipping related expenses for the year 2016 dropped 31% to HK$424,831,000 as compared to HK$614,245,000 for the year 2015 due to the reduced number of owned vessels, and reduced voyage-related direct costs, including bunker expenses, when less voyage charters were engaged in 2016. The decrease was also attributable to the reduction in vessels' running costs under the Group's continuing effort on cost reduction strategy in order to remain competitive in the current tough market environment.

**Other operating expenses.** Other operating expenses from continuing operation decreased from HK$242,875,000 for the year 2015 to HK$82,299,000 for the year 2016 due to the net loss on financial assets at fair value through profit or loss of HK$19,089,000 was recognized in 2016 whereas net loss on financial assets at fair value through profit or loss of HK$166,785,000 was recognized in 2015.

**Financial assets at fair value through profit or loss.** As at 31 December 2016, the Group's portfolio of investment in financial assets at fair value through profit or loss was HK$391,868,000 (2015: HK$715,674,000), in which HK$150,540,000 (2015: HK$341,605,000) was investments in listed equity securities and HK$241,328,000 (2015: HK$374,069,000) was investments in listed debt securities.

# Management Discussion and Analysis

## FINANCIAL REVIEW *(Continued)*

**Liquidity, financial resources and capital structure.** As at 31 December 2016, the Company maintained positive working capital position of HK$409,448,000 (2015: HK$355,758,000). The total of the Group's equity and debt securities, bank balances and cash decreased to HK$632,740,000 (2015: HK$992,890,000). During the year, net cash generated from operating activities amounted to approximately HK$276,916,000 (2015: HK$315,373,000).

The Group's bank borrowings decreased to HK$1,657,916,000 (2015: HK$2,476,367,000), of which 13%, 9%, 77% and 1% are repayable respectively within one year, one to two years, two to five years and over five years. All bank borrowings were denominated in United States Dollars and were committed on floating rate basis.

The gearing ratio, as calculated on the basis of net debts (total interest-bearing debts net of equity and debt securities, bank balances and cash) over total equity, increased to 52% (2015: 43%) as at 31 December 2016. With cash, marketable equity and debt securities in hand as well as available credit facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements. As at 31 December 2016, the Group is able to service its debt obligations, including principal and interest payments.

In order to preserve the Group's liquidity and financial resources to weather the unprecedented storm in dry bulk shipping market, the Group has decided to manage liquidity risk ahead and initiated rescheduling of indebtedness arrangement discussion with its lenders. An intercreditor deed (the "ICD") between Jinhui Shipping (as corporate guarantor), twenty five wholly-owned subsidiaries of Jinhui Shipping as borrowers of relevant vessel mortgage loans (the "Borrowers") and four major lenders (as lenders of relevant vessel mortgage loans) (collectively, the "Parties") was executed on 8 December 2016 and the effective date took place on 28 December 2016 after the conditions precedent had been fulfilled.

Pursuant to the terms of the ICD, among others, the Parties agreed that the Borrowers shall pay 50% of each repayment installment during the forbearance period until 31 December 2018 (with early restructuring exit option) and the remaining 50% of each such installment be deferred and repaid within two business days after the end of the forbearance period in 2019. Any asset coverage ratio covenant and financial covenant as set out in the relevant loan facilities are waived and suspended, among others, during the forbearance period. The Borrowers are not required to provide additional securities under the ICD, but have agreed on cross-collateralization over the mortgaged vessels among each lender. The Borrowers shall pay an increased margin of 0.75% per annum during the forbearance period and 0.5% per annum after the forbearance period as long as any amount is outstanding under the relevant loan facilities. The rescheduling of indebtedness would allow the Group to preserve liquidity and financial resources to weather the unprecedented storm in dry bulk shipping market.

We will continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet profile as appropriate and make adjustments to its capital structure in the light of changes in economic conditions, recent market values of the Group's assets as well as the risk characteristics of the underlying assets.

## FINANCIAL REVIEW *(Continued)*

**Pledge of assets.** As at 31 December 2016, the Group's property, plant and equipment with an aggregate net book value of HK$2,608,529,000 (2015: HK$4,565,421,000), investment properties with an aggregate carrying amount of HK$106,975,000 (2015: HK$79,630,000), and deposits of HK$50,663,000 (2015: HK$80,937,000) placed with banks were pledged together with the assignment of twenty eight (2015: thirty six) ship owning subsidiaries' chartering income to secure credit facilities utilized by the Group. In addition, shares of twenty two (2015: thirty) ship owning subsidiaries were pledged to banks for vessel mortgage loans.

**Capital expenditures and commitments.** During the year, capital expenditure on additions of owned vessels was HK$38,310,000 (2015: HK$84,163,000), on other property, plant and equipment was HK$818,000 (2015: HK$15,440,000) and on investment properties was HK$6,668,000 (2015: HK$3,508,000). As at 31 December 2016 and 2015, there was no capital expenditure commitments contracted by the Group but not provided for.

## SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSALS

For the year 2016, the Group took the opportunity to enter into eight memorandums of agreement to dispose two Panamaxes, five Supramaxes and one Handymax. The reduction of number of vessels is part of the risk management measures to lower the operational risk in the volatile and tough shipping environment, where freight rate earnings may or may not be able to cover the related running costs. Given the cost side of our business is rather rigid, we believe a readjustment of fleet size to reduce operational risk and store up additional liquidity is a prudent and responsible action of the Company and it is in the interests of the Company and its shareholders as a whole. Even though the considerations of the disposal of the vessels are below the disposed vessels' net book values and a loss is recognized, the disposal of the vessels would generate positive cash inflow to boost its working capital and liquidity, and eventually lower the Group's upcoming debt service payments and total indebtedness.

For financial reporting purposes, these eight disposed vessels were reclassified to "Assets held for sale" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", with a total impairment loss on assets held for sale (disposed vessels) of HK$354,602,000 was recognized in 2016 upon reclassification to assets held for sale. The Directors continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet profile as appropriate.

On 8 December 2016, the Group entered into two provisional sale and purchase agreements with a third party to dispose of two investment properties located in Hong Kong at a total consideration of HK$97,500,000, with carrying amount of HK$96,418,000 as at 31 December 2016. Both transactions were completed in the first quarter of 2017 and no material gain or loss is realized. The disposal of the two investment properties generated positive cashflow resulting in the strengthening of the Group's overall financial liquidity. As the Group is principally engaged in the business of ship chartering and ship owning and having regard to the prevailing property market conditions, the Directors are of the view that the disposal of the properties which are non-core assets of the Company, represented a good opportunity for the Group to realize its investment properties for a reasonable return and improve its liquidity position.

Save as disclosed above, the Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the year.

## EMPLOYEES AND REMUNERATION POLICY

The employees are the Group's most important resource and are crucial to the Group's success in achieving its targets for long term value creation. The Group provides various resources for staff training and development.

As at 31 December 2016, the Group had 70 (2015: 75) full-time employees. The Group remunerates its employees in accordance with their performances, experiences and prevailing market practices and provides them with usual fringe benefits including medical insurance and contributions to provident funds. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

The Group maintains a good relationship with its employees and crew and has not experienced any disruption of its operation as a result of industrial disputes.

## WORKING ENVIRONMENT

In order to attract and retain the best people for the sustainable growth of the Company, we place emphasis on a healthy and safe workplace on board in our vessels and ashore at our office and support all kinds of community activities that contribute to our community.

We put safety as our top priority in business operation. Accident preventions and efforts for improvement in working environment are given high priority in the business management, conventions and all parts of operations. We strive to comply with applicable safety and environmental laws and regulations to which seafarers of all ranks must be trained and certificated in order to be able to carry out their respective duties on board in our vessels. We ensure all crew on board are trained and certificated in accordance with STCW Convention.

We provide fringe benefits and welfare to our people including but not limited to medical and life insurance, pension schemes, paid leave for various purposes, travel or meals for business-related work, and other benefits to improve employees' well-being.

## EXTERNAL ENVIRONMENT ISSUES

We are committed to operate our business in an environmentally and socially responsible manner. To achieve this, we strive to comply with all applicable rules and regulations with our best efforts in shipping operation as well as in our daily working environment to minimize any adverse impact to the environment. The possible environment impact may include air pollutants emissions, ballast water discharges and oil pollution in environmental disaster. By maintaining operational safety and providing quality training of our crews in compliance with applicable environmental laws and regulations, we believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations.

## EXTERNAL ENVIRONMENT ISSUES *(Continued)*

It has always been our policy to maintain high standard of environmental protection awareness and to operate our vessels in a safe and environmental friendly manner. We maintain our modern first-class fleet to enable maximum environmental performance and ensure our compliance to safety and environmental laws and regulations including ISM Code, ISPS Code, and other applicable rules regulated by IMO. These conventions have been ratified by majority of maritime nations and apply to all vessels registered in these countries or calling in the waters of these countries. We obtain safety management certificate, document of compliance and go through annual verification and audit for compliance with ISM Code issued by recognized organization on behalf of the flag states.

We ensure our own fleet be equipped with proven green and energy efficiency equipment and technologies to minimize the emission of toxic pollutants, which include:

Nitrogen Oxides (NOx) – our vessels are built with the main engine and auxiliary engines that are fuel-efficient and comply with the latest emission of pollutants limits;

Sulfur Oxides (SOx) – our vessels burn the required low sulfur content bunker fuel;

Ozone depleting substances – majority of our vessels' equipment do not contain ozone depleting substances and comply with all material aspects of MARPOL regulations pertaining to hazardous ozone depleting substances;

Ballast water – our vessels follow the latest requirements on ballast water exchange and operations.

Carbon Dioxide emission reduction – since February 2013 the Group has adopted the Ship Energy Efficiency Management Plan ("SEEMP"), a plan that individual vessel can follow and improve each vessel's energy efficiency through a series of procedures and efforts. Implementing of SEEMP will contribute towards reducing fuel consumption and carbon emission which influence the global environment. In 2016, targeted Carbon Dioxide emission had been reduced by 127,227 tons from 514,762 tons for the year 2015 to 387,535 tons for the year 2016 mainly due to the reduction of fleet size during the year 2016. In 2016, Vessels' Energy Efficiency Operating Indicator is about 10 grammes CO2 / MT.Mile, a reduction of about six percent as compared to 2015.

We realize the importance of environmental stewardship and share the same environmental preservation objective with our crew and our people. In order to foster the environmental friendly practices in our vessels, we follow an internal safety management manual, which defines our objectives and commitments in complying with all applicable national and international rules and regulations, code and guidelines and standards recommended by IMO, flag states and other maritime industry organizations. These codes and guidelines and standards, together with our safety manual have been kept ashore and on our fleet and strictly followed by our team. We will closely monitor environmental regulations development to ensure compliance with all applicable environmental regulations in our business operation.

## EXTERNAL ENVIRONMENT ISSUES *(Continued)*

We encourage management and employees to take part in environmental preservation with best efforts. We support all kinds of environmental friendly practices or energy saving ideas throughout our operations and dedicate to conserve water, energy, resources and materials by reduce, recycle and reuse in our office and to strengthen environment preservation consciousness as an integral part of our corporate culture.

We will publish a separate environmental, social and governance report on the websites of Hong Kong Exchanges and Clearing Limited and the Company no later than three months after the publication of this annual report.

## RISK MANAGEMENT

The Group is principally exposed to various risks and uses appropriate measures to manage risks related to its business and operations.

**Business and operational risks.** The Group is exposed to the business and operational risks to the extent that certain changes may have a negative effect on the Group's cash flows and operations. These changes include the fluctuations in charter rates of the shipping market; the changes in demand and supply in the dry bulk market; the drop in vessel values which results in impairment loss of the Group's assets; the changes in operating expenses including bunker prices, crewing costs, drydocking and insurance costs; and the maintenance expenses which include costs of spare parts. The dry bulk market is highly volatile and market freight rates may fluctuate significantly within a short period of time. We will continue to adopt a flexible chartering policy and manage different business risk exposures by diversification of counterparties, sourcing reliable charterers from a wider range of ship brokers, and maintaining a good balance of geographical positioning of our fleet.

For the year 2016, the Group took the opportunity to enter into eight memorandums of agreement to dispose two Panamaxes, five Supramaxes and one Handymax at a total consideration of US$65,100,000 (approximately HK$507,780,000). The reduction of number of vessels is part of the risk management measures to lower the operational risk in the volatile and tough shipping environment, where freight rate earnings may or may not be able to cover the related running costs. Given the cost side of our business is rather rigid, we believe a readjustment of fleet size to reduce operational risk and store up additional liquidity is a prudent and responsible action of the Company. Even though the considerations of the disposal of the vessels are below the disposed vessels' net book values and a loss is recognized, the disposal of the vessels would generate positive cash inflow to boost its working capital and liquidity, and eventually lower the Group's upcoming debt service payments and total indebtedness. Looking ahead, we will continue to focus on taking sensible and decisive actions to maintain a strong financial position. We will continuously monitor the market as well as our operations going forward and will maintain a young and modern fleet, not ruling out any future disposal or acquisition of vessels and will make such decisions on an ad hoc basis to readjust our fleet size in order to sail through the current storm by placing further emphasis on prudence and stability as our core objectives going forward.

## RISK MANAGEMENT *(Continued)*

**Market risk.** Market risk is the risk of operational loss or financial loss due to adverse changes in the market exposure. It also includes the adverse change of value of a financial instrument or portfolio of financial instruments when there are changes in market factors such as underlying interest rates, exchange rates, equity securities prices, debt securities prices or in the volatility of these factors. The Group's major market risk exposures on financial instruments mainly arise from bank borrowings committed on floating rate basis, and investments in equity and debt securities. In the ordinary course of business, the Group identifies these risks and mitigates their financial impact through the use of appropriate financial instruments in accordance with the Group's risk management policies. Additional information regarding the Group's use of financial instruments is disclosed in the "Financial Risk Management and Policies" in note 39 to the consolidated financial statements.

**Credit risk.** Credit risk is the risk of financial loss to the Group if the counterparty fails to discharge its contractual obligations under the terms of the financial instrument. The Group's exposures to credit risk principally arising from the trade receivables from charterers, investment in debt securities and deposits or other financial assets placed with financial institutions. The potential loss is generally limited to the carrying amount of receivables and liquid assets as shown in the Group's consolidated statement of financial position. Credit risk also includes concentration risk of large exposures or concentrations to certain counterparties. The Group will, wherever possible, maintain a diversified customer portfolio or only enter into financial instruments with creditworthy counterparties. The Group regularly monitors the potential exposures to each significant counterparty and performs ongoing credit quality assessment and does not expect to incur material credit losses on managing the financial instruments.

**Liquidity risk.** Liquidity risk is the risk that the Group fails to meet its obligations associated with its financial liabilities. The Group takes conservative treasury policies to maintain sufficient cash reserves, readily realizable marketable equity and debt securities and obtain credit facilities from well-known financial institutions. The management actively involves in treasury management to ensure adequate cash flows to meet the expected liquidity requirements, working capital and capital expenditures needs. With the dry bulk market being extremely challenging, preserving optimal liquidity is of pinnacle importance. The Group will be working closely with lenders to devise ways to maximize liquidity position in case of the challenging freight environment will continue for longer than expected. A new undrawn credit facility of HK$120,000,000 backed by the Group's property assets has also been arranged in early 2016.

In order to preserve the Group's liquidity and financial resources to weather the unprecedented storm in dry bulk shipping market, the Group has decided to manage liquidity risk ahead and initiated rescheduling of indebtedness arrangement discussion with its lenders. An intercreditor deed (the "ICD") between Jinhui Shipping (as corporate guarantor), twenty five wholly-owned subsidiaries of Jinhui Shipping as borrowers of relevant vessel mortgage loans (the "Borrowers") and four major lenders (as lenders of relevant vessel mortgage loans) (collectively, the "Parties") was executed on 8 December 2016 and the effective date took place on 28 December 2016 after the conditions precedent had been fulfilled.

## RISK MANAGEMENT *(Continued)*

Pursuant to the terms of the ICD, among others, the Parties agreed that the Borrowers shall pay 50% of each repayment installment during the forbearance period until 31 December 2018 (with early restructuring exit option) and the remaining 50% of each such installment be deferred and repaid within two business days after the end of the forbearance period in 2019. Any asset coverage ratio covenant and financial covenant as set out in the relevant loan facilities are waived and suspended, among others, during the forbearance period. The Borrowers are not required to provide additional securities under the ICD, but have agreed on cross-collateralization over the mortgaged vessels among each lender. The Borrowers shall pay an increased margin of 0.75% per annum during the forbearance period and 0.5% per annum after the forbearance period as long as any amount is outstanding under the relevant loan facilities. The rescheduling of indebtedness would allow the Group to preserve liquidity and financial resources to weather the unprecedented storm in dry bulk shipping market.

We will continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet profile as appropriate and make adjustments to its capital structure in the light of changes in economic conditions, recent market values of the Group's assets as well as the risk characteristics of the underlying assets.

## RISK FACTORS

This report may contain forward looking statements. These statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including the Company's management's examination of historical operating trends. Although the Company believes that these assumptions were reasonable when made, because assumptions are inherently subject to significant uncertainties which are difficult or impossible to predict and are beyond its control, the Company cannot give assurance that it will achieve or accomplish these expectations, beliefs or targets.

Key risk factors that could cause actual results to differ materially from those discussed in this report will include but not limited to the way world economies, currencies and interest rate environment may evolve going forward, general market conditions including fluctuations in charter rates and vessel values, counterparty risk, changes in demand in the dry bulk market, changes in operating expenses including bunker prices, crewing costs, drydocking and insurance costs, availability of financing and refinancing, inability to obtain restructuring or rescheduling of indebtedness from lenders in liquidity trough, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents, piracy or political events, and other important factors described from time to time in the reports filed by the Company.

# Management Discussion and Analysis

## OUTLOOK

2016 was one of the toughest years for dry bulk shipping. Both the freight market and asset price went through a confidence meltdown during the first half of 2016, and have since rebounded from its trough to better levels though still uninspiring. The expected path to meaningful recovery and equilibrium not without its challenges.

A number of factors will continue to determine the pace of dry bulk market recovery: (1) continued positive demand growth in key dry bulk commodities importing activities from China; (2) a continue recovery or stabilization of dry commodity prices; and most importantly in our view (3) the reduction in shipbuilding capacity where irrational order, and hence oversupply will be discouraged; (4) the US policies will be a swing factor with a new president in office.

The difficulties faced by shipyards, buyers and financiers are all pointing towards a much reduced projected fleet growth. The previous round of excessive newbuilding orders driven by irrational expectations of financial return by parties with limited operating experience, with investment rationale driven mainly by their ability to access cheap funding in both the money and capital markets, and fee driven intermediaries acting as a catalyst backfired hard in 2016, leaving all industry participants a very bitter memory.

Delays, conversions of bulk newbuilding orders to other vessel types, cancellations, and shipyard defaults are leading to much fewer actual deliveries than previously scheduled. Asset based financing, in particular with respect to maritime assets will be harder and more expensive to come by going forward.

We continue to see uncertainties with respect to the global economic outlook, particularly the freight market as well as the financial, commodity and currency markets. This will inevitably introduce volatility to our business performance, as well as the carrying value of our shipping assets and financial assets. We will continue to refrain from using freight, bunker, currencies or interest rate derivatives to minimize any unnecessary business risks.

We are in a relatively fortunate position where we have no capital expenditure commitment in relation to newbuilding contracts, as well as no charter-in contracts at this juncture. Looking ahead, we will continue to focus on taking sensible and decisive actions to maintain a strong financial position. We will continuously monitor the market as well as our operations going forward and will maintain a young and modern fleet, not ruling out any future disposal or acquisition of vessels and will make such decisions on an ad hoc basis to readjust our fleet size in order to sail through the current storm by placing further emphasis on prudence and stability as our core objectives going forward.

We will intimately monitor cargo flows in order to deploy our vessels efficiently to optimize revenue, secure and maximize income including potential recoveries from outstanding charter disputes, ensuring the maintenance of a high quality, safe fleet of vessels, and keeping costs in check to enhance our margins in order to remain competitive beyond the current crisis.

We will continue to operate with a conservative yet nimble mindset, and be ready to act in the best interest of our shareholders under different kinds of scenarios. We will exercise our best efforts to be one of the survivors, a trustworthy partner to those who support us, and be a long term preferred vessel provider to our customers.

# Board of Directors and Senior Management

## BOARD OF DIRECTORS

**Mr. Ng Siu Fai**, *Chairman*
Aged 60. A Director of the Company since 1991 and the chairman of Jinhui Shipping since 1994. As one of the two founders of the Group in 1987, Mr. Ng is responsible for strategic planning for the Group as well as overseeing all aspects of the Group's operations. Mr. Ng has extensive knowledge and working experience in the shipping industry as well as business management and China trade.

Mr. Ng is a brother of Messrs. Ng Kam Wah Thomas and Ng Ki Hung Frankie, both are directors of the Company (as disclosed hereinafter).

**Mr. Ng Kam Wah Thomas**, *Managing Director*
Aged 54. A Director of the Company since 1991 and the managing director of Jinhui Shipping since 1994. Mr. Ng is the other founder of the Group in 1987 and responsible for the Group's shipping activities. Mr. Ng has extensive knowledge and working experience in the shipping industry and business management. Mr. Ng holds a Bachelor's Degree in Arts from the University of Guelph in Canada and a Diploma in Management Studies, specializing in shipping, from the Plymouth Polytechnic in the United Kingdom.

**Mr. Ng Ki Hung Frankie**, *Executive Director*
Aged 63. A Director of the Company since 1991 and a director of Jinhui Shipping since 1994. Mr. Ng is responsible for the Group's investments and business management. Mr. Ng has extensive working experience in the shipping industry as well as business management and China trade. He is currently an independent non-executive director of Flat Glass Group Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 6865).

**Ms. Ho Suk Lin**, *Executive Director*
Aged 53. The Company Secretary of the Company since 1991, a Director of the Company since 1993 and a director and the company secretary of Jinhui Shipping since 1994. Ms. Ho is responsible for the Group's financial controls and secretarial matters. Ms. Ho has extensive working experience in finance and management. Prior to joining the Group in 1991, she worked in an international accounting firm. Ms. Ho is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and also an associate member of the Institute of Chartered Accountants in England and Wales.

**Mr. Cui Jianhua**, *Independent Non-executive Director*
Aged 62. An Independent Non-executive Director of the Company since 1993. Mr. Cui has extensive experience gained from his management positions in various China related entities. He is currently the managing director of Poco International Co. Ltd. Mr. Cui holds a Master of Arts Degree from McMaster University, Canada.

## BOARD OF DIRECTORS *(Continued)*

**Mr. Tsui Che Yin Frank**, *Independent Non-executive Director*
Aged 59. An Independent Non-executive Director of the Company since 1994 and a non-executive director of Jinhui Shipping since 2006. Mr. Tsui has extensive experience in investment and banking industries and held senior management positions at various international financial institutions. He is currently an executive director of Melco International Development Limited, and the chairman and non-executive director of MelcoLot Limited (a subsidiary of Melco International Development Limited), both being companies listed in Hong Kong; and a director of Mountain China Resorts (Holding) Limited listed in Canada. Mr. Tsui graduated with a Bachelor's and a Master's Degree in Business Administration from the Chinese University of Hong Kong and with a Law Degree from the University of London. He holds a Doctoral Degree in Business Administration from The University of New Castle, Australia. Mr. Tsui is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

**Mr. William Yau**, *Independent Non-executive Director*
Aged 49. An Independent Non-executive Director of the Company since 2004 and a non-executive director of Jinhui Shipping since 2006. Mr. Yau has extensive experience gained from his senior management positions in various industries. He is at present a director of American Phil Textiles Limited and Forum Restaurant (1977) Limited. Mr. Yau also serves as director of Fujian Shishi Rural Commercial Bank Co., Ltd. and the Hong Kong Island Social Services Charitable Foundation Limited. Mr. Yau graduated with a Bachelor Degree of Computer Systems Engineering from the Carleton University in Canada.

## SENIOR MANAGEMENT

**Mr. Ching Wei Man Raymond**, *Vice President*
Aged 42. Joined the Group in 2004 as Vice President, and is responsible for overseeing various activities for the Group, with particular focus in shipping related investments, corporate finance matters, investor relations, and new business development. Mr. Ching has extensive experience in shipping investments and in finance. Prior to joining the Group, he worked for a number of years in the investment banking division for a major US bank. Mr. Ching holds a Master of Engineering and a Master of Science (Finance), both from the Imperial College of Science, Technology and Medicine in London.

**Mr. Wu Kar Keung Norman**, *Head of Chartering Department*
Aged 63. Joined the Group in 1995 as Head of Chartering Department, responsible for the chartering business of the Group. Mr. Wu has extensive working experience in the shipping industry, in particular ship chartering for over 25 years. Prior to joining the Group, Mr. Wu held senior position at Clarkson Asia Limited as well as running his own shipbroking company. Mr. Wu holds a Bachelor Degree in Business Administration from the University of Houston in USA.

**Mr. Shum Yee Hong**, *Head of Management and Operation Department*
Aged 64. Joined the Group in 1992 as Head of Management and Operation Department, responsible for the ship operation activities of the Group. Mr. Shum has over 30 years of working experience in the shipping industry. Before joining the Group, Mr. Shum was a marine superintendent for an international shipping company.

# Directors' Report

The Directors present their report and the audited consolidated financial statements of Jinhui Holdings and its subsidiaries for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are ship chartering and ship owning and the particulars of the principal subsidiaries are set out in note 42 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing by the Group and an indication of likely future developments in the Group's business and the key performance indicators, can be found in "Management Discussion and Analysis" on pages 26 to 37 and "Highlights" on pages 7 to 10 of this Annual Report. This discussion forms part of this Directors' Report.

## REGISTERED OFFICE

The Company is incorporated in Hong Kong and its registered office is 26th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the financial position of the Group as at 31 December 2016 are set out in the consolidated financial statements on pages 54 to 123.

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2016. As there is no interim dividend payable during the year, there will be no dividend distribution for the whole year of 2016.

## SHARE CAPITAL

There were no movements in the Company's share capital during the year.

## RESERVES

Details of movements in reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" on page 58.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2016, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to HK$302,318,000 (2015: HK$265,858,000).

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 9 and 10.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment, and investment properties of the Group during the year are set out in note 19 and note 20 to the consolidated financial statements respectively.

## BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 28 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

Revenue attributable to the top five largest customers in aggregate and the single largest customer of the Group accounted for approximately 56% and 18% respectively of the total revenue of the Group for the year.

Purchases attributable to the top five largest suppliers in aggregate and the single largest supplier of the Group are not disclosed as there was no purchase of the Group for the year.

At no time during the year have the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's number of issued shares) had any interest in the Group's five largest customers.

# Directors' Report

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of HK$55,000.

## RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution provident fund scheme and a mandatory provident fund scheme for employees in Hong Kong. Particulars of these schemes are set out in note 4.24 to the consolidated financial statements.

## EVENTS AFTER THE REPORTING DATE

Save as disclosed in note 38 to the consolidated financial statements, there is no other significant events occurred after the reporting date and up to the date of signing this annual report.

## DIRECTORS

The Directors who held office of the Company during the year and up to the date of this report were:

**Executive Directors**
Mr. Ng Siu Fai, *Chairman*
Mr. Ng Kam Wah Thomas, *Managing Director*
Mr. Ng Ki Hung Frankie
Ms. Ho Suk Lin

**Independent Non-executive Directors**
Mr. Cui Jianhua
Mr. Tsui Che Yin Frank
Mr. William Yau

In accordance with the Company's Articles of Association, Mr. Ng Ki Hung Frankie and Mr. William Yau will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Board has obtained annual written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Board believes that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Brief biographical details of the Directors and senior management are set out in "Board of Directors and Senior Management" on pages 38 and 39.

A full list of the directors of the Company's subsidiaries is available on the Company's website at www.jinhuiship.com.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of the Company's holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY, ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2016, the interests and short positions of each Director and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its specified undertakings, and associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

**Long positions**

**(i) Directors' interests in shares of the Company**

| | Number of shares in the Company held and capacity | | | | Percentage of total issued shares of the Company |
|---|---|---|---|---|---|
| **Name** | **Beneficial owner** | **Interest of spouse** | **Beneficiary of trust** | **Total** | |
| Ng Siu Fai | 19,917,000 | 15,140,000 | 342,209,280 *Note* | 377,266,280 | 71.15% |
| Ng Kam Wah Thomas | 5,909,000 | – | 342,209,280 *Note* | 348,118,280 | 65.65% |
| Ng Ki Hung Frankie | 3,000,000 | – | 342,209,280 *Note* | 345,209,280 | 65.10% |
| Ho Suk Lin | 3,850,000 | – | – | 3,850,000 | 0.73% |
| Cui Jianhua | 960,000 | – | – | 960,000 | 0.18% |
| Tsui Che Yin Frank | 1,000,000 | – | – | 1,000,000 | 0.19% |
| William Yau | 441,000 | – | – | 441,000 | 0.08% |

*Note:* As at 31 December 2016, Lorimer Limited, in its capacity as trustee of the Ng Hing Po 1991 Trust, is the legal owner of the entire issued share capital of Fairline which is the legal and beneficial owner of 342,209,280 shares of the Company (representing approximately 64.53% of the total issued shares of the Company). The Ng Hing Po 1991 Trust is a discretionary trust, the eligible beneficiaries of which include members of the Ng family. Both Messrs. Ng Siu Fai and Ng Kam Wah Thomas are directors of Fairline.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY, ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

### (ii) Directors' interests in associated corporation

| | Number of shares in Jinhui Shipping held and capacity | | | | Percentage of total issued |
|---|---|---|---|---|---|
| Name | Beneficial owner | Interest of spouse | Beneficiary of trust | Total | shares of Jinhui Shipping |
| Ng Siu Fai | 1,214,700 | 708,100 | 46,534,800 *Note* | 48,457,600 | 57.66% |
| Ng Kam Wah Thomas | 50,000 | – | 46,534,800 *Note* | 46,584,800 | 55.43% |
| Ng Ki Hung Frankie | – | – | 46,534,800 *Note* | 46,534,800 | 55.37% |

*Note:* Lorimer Limited, in its capacity as trustee of the Ng Hing Po 1991 Trust, is the legal owner of the entire issued share capital of Fairline which is the controlling shareholder of the Company as disclosed hereinabove.

As at 31 December 2016, each of Messrs. Ng Siu Fai, Ng Kam Wah Thomas and Ng Ki Hung Frankie, the eligible beneficiaries of the Ng Hing Po 1991 Trust, is deemed to be interested in 46,034,800 shares of Jinhui Shipping (representing approximately 54.77% of the total issued shares of Jinhui Shipping) held by the Company and 500,000 shares of Jinhui Shipping (representing approximately 0.59% of the total issued shares of Jinhui Shipping) held by Fairline through their beneficial interests in the Company and Fairline respectively.

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under Section 352 of the SFO as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its specified undertakings, and associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded and kept in the register in accordance with Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## EQUITY-LINKED AGREEMENTS

**Directors' interests in underlying shares of the Company (rights to acquire shares of the Company under the Share Option Scheme)**

A share option scheme was adopted by the Company on 18 November 2004 whereby the Board was authorized to grant share options to acquire the shares of the Company to the Directors, officers and employees of the Group and other person(s) selected by the Board who have contributed or will contribute to the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

Details of share options under the Share Option Scheme in 2016 were as follows:

| Name | Date of grant | Exercise price per share *HK$* | Exercisable period | Number of outstanding options as at 1 January 2016 | Number of options lapsed during the year | Number of outstanding options as at 31 December 2016 |
|---|---|---|---|---|---|---|
| Ng Siu Fai | 29 June 2006 | 1.57 | 29 June 2006 to 28 June 2016 | 3,184,000 | (3,184,000) | – |
| Ng Kam Wah Thomas | 29 June 2006 | 1.57 | 29 June 2006 to 28 June 2016 | 3,184,000 | (3,184,000) | – |
| Ng Ki Hung Frankie | 29 June 2006 | 1.57 | 29 June 2006 to 28 June 2016 | 3,184,000 | (3,184,000) | – |
| | | | | 9,552,000 | (9,552,000) | – |

*Notes:*

1. During the year, 9,552,000 share options were lapsed. Other than that, no share option was granted, exercised, cancelled or lapsed during the year.

2. The Share Option Scheme was valid and effective for a period of ten years commencing on 18 November 2004 up to 17 November 2014. All outstanding options granted under the Share Option Scheme had been lapsed on 28 June 2016.

3. The exercise price of HK$1.57 per share was determined by the higher of (i) the closing price per share of the Company on the date of grant of options on 29 June 2006; and (ii) the average closing price per share of the Company for the five business days immediately preceding the date of grant of options on 29 June 2006. As at the date of grant of options on 29 June 2006, the closing price per share of the Company was HK$1.57.

## EQUITY-LINKED AGREEMENTS *(Continued)*

**Directors' interests in underlying shares of the Company (rights to acquire shares of the Company under the Share Option Scheme) *(Continued)***

Apart from the foregoing, at no time during the year was the Company, or any of its specific undertakings a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## LOANS TO OFFICERS

No loans to the Company's officers were made or outstanding at any time during the year or at the end of the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, in accordance with the register kept under Section 336 of the SFO, the following persons (other than Directors or chief executives of the Company) had interests representing 5% or more of the issued share capital of the Company:

**Long positions**

| Name of shareholders | Capacity | Number of shares in the Company | Percentage of total issued shares of the Company |
|---|---|---|---|
| Fairline Consultants Limited | Beneficial owner | 342,209,280 | 64.53% |
| Wong Yee Man Gloria | Beneficial owner and interest of spouse | 377,266,280 *Note* | 71.15% |

*Note:* The interest in shares includes 15,140,000 shares of the Company in which Ms. Wong Yee Man Gloria is interested as a beneficial owner and 362,126,280 shares of the Company in which she is deemed to be interested through the interest of her spouse, Mr. Ng Siu Fai (as disclosed hereinabove).

Save as disclosed herein, as at 31 December 2016, the Company has not been notified of any person (other than Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares was held by the public throughout the year and up to the date of this report.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for directors' and senior management's liabilities in respect of legal actions against its directors and senior management arising from corporate activities. The permitted indemnity provision is in force for the benefit of any directors as required by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) throughout the year and remained in force up to the date of this report.

## AUDITOR

The consolidated financial statements for the years ended 31 December 2014, 2015 and 2016 had been audited by Grant Thornton Hong Kong Limited. An ordinary resolution for the re-appointment of Grant Thornton Hong Kong Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting, subject to shareholders' approval.

## CORPORATE GOVERNANCE

Jinhui Holdings recognizes the importance of good corporate governance to the Company's value creation. The corporate governance report of 2016 was set out in "Corporate Governance Report" on pages 11 to 25, which covered the required report contents as set out in Appendix 14 of the Listing Rules with the description of our conformance throughout the year and provided explanation of the reasons for the deviations.

For and on behalf of the Board

**Ng Kam Wah Thomas**
*Managing Director*

Hong Kong, 20 March 2017

Grant Thornton
致同

**To the members of**
**Jinhui Holdings Company Limited**
*(Incorporated in Hong Kong with limited liability)*

## OPINION

We have audited the consolidated financial statements of Jinhui Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 54 to 123, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditor's Report

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment assessment of owned vessels**

| The Key Audit Matters | How the matter was addressed in our audit |
|---|---|
| Refer to notes 4.9, 5.1, 13 and 19 to the consolidated financial statements.<br><br>The Group's carrying amount of motor vessels and capitalised drydocking costs amounted to HK$2,578,134,000 as at 31 December 2016 and the Group recorded an impairment loss on owned vessels of HK$881,478,000 for the year.<br><br>The carrying amount of owned vessels was determined based on the value in use calculation. Management's assessment of the value in use of owned vessels is estimated based on the estimated future cash flows projections from the continuous use of such vessel, which was appraised by an independent qualified appraisal firm, and involves significant judgements and estimates about the future performance, key assumptions including discount rate, useful life, hire rates and utilisation rate of each vessel.<br><br>Considering the significance of judgements and estimates and the financial impacts of the impairment assessment of the Group's owned vessels, we paid specific attention to this matter in our audit. | Our audit procedures included:<br><br>– evaluating the process of impairment assessment of owned vessels and the value in use calculation methodology adopted by the management and approved by the Board;<br><br>– testing the calculation for the impairment assessment performed by the management;<br><br>– assessing the reasonableness of the key assumptions including discount rate, useful life, hire rates and utilisation rate by comparing the current year actual performance and prior year projections and by reference to the market and industry information;<br><br>– involving our internal valuation specialists to assist us when considering the appropriateness of the discount rate and hire rates;<br><br>– assessing the adequacy of management's sensitivity of value in use calculation.<br><br>We obtained supportive evidence for the significant judgements and estimates on the value in use calculation and key assumptions applied in the estimated future cash flows projections. |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2016 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Grant Thornton Hong Kong Limited**
*Certified Public Accountants*
Level 12
28 Hennessy Road
Wanchai
Hong Kong

20 March 2017

Chan Tze Kit
Practising Certificate No.: P05707

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*Year ended 31 December 2016*

| | Note | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | | |
| **Revenue** | *8* | **467,649** | 673,163 |
| Other operating income | *9* | **179,253** | 266,100 |
| Interest income | | **16,542** | 32,741 |
| Shipping related expenses | | **(424,831)** | (614,245) |
| Staff costs | *10* | **(78,622)** | (88,325) |
| Impairment loss on owned vessels | *13* | **(881,478)** | (2,535,083) |
| Impairment loss on assets held for sale | *14* | **(354,602)** | – |
| Impairment loss on goodwill | | **–** | (39,040) |
| Other operating expenses | | **(82,299)** | (242,875) |
| **Operating loss before depreciation and amortization** | *12* | **(1,158,388)** | (2,547,564) |
| Depreciation and amortization | | **(274,206)** | (426,319) |
| **Operating loss** | | **(1,432,594)** | (2,973,883) |
| Finance costs | *15* | **(39,902)** | (37,967) |
| **Loss before taxation** | | **(1,472,496)** | (3,011,850) |
| Taxation | *16* | **–** | – |
| Loss for the year from continuing operation | | **(1,472,496)** | (3,011,850) |
| **DISCONTINUED OPERATION** | | | |
| Loss for the year from discontinued operation | *6(a)* | **–** | (10,099) |
| **Loss for the year** | | **(1,472,496)** | (3,021,949) |
| **Other comprehensive income (loss)** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Change in fair value arisen from reclassification from leasehold land and buildings to investment properties upon disposal of subsidiaries | | **–** | 30,746 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Change in fair value of available-for-sale financial assets from continuing operation | | **(228)** | 3,000 |
| **Total comprehensive loss for the year** | | **(1,472,724)** | (2,988,203) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*Year ended 31 December 2016*

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Loss for the year attributable to:** | | | |
| Shareholders of the Company | | | |
| – Continuing operation | | **(805,394)** | (1,675,672) |
| – Discontinued operation | | **–** | (7,511) |
| | | **(805,394)** | (1,683,183) |
| Non-controlling interests | | | |
| – Continuing operation | | **(667,102)** | (1,336,178) |
| – Discontinued operation | | **–** | (2,588) |
| | | **(667,102)** | (1,338,766) |
| | | **(1,472,496)** | (3,021,949) |
| **Total comprehensive loss for the year attributable to:** | | | |
| Shareholders of the Company | | | |
| – Continuing operation | | **(805,542)** | (1,641,926) |
| – Discontinued operation | | **–** | (7,511) |
| | | **(805,542)** | (1,649,437) |
| Non-controlling interests | | | |
| – Continuing operation | | **(667,182)** | (1,336,178) |
| – Discontinued operation | | **–** | (2,588) |
| | | **(667,182)** | (1,338,766) |
| | | **(1,472,724)** | (2,988,203) |
| **Loss per share** | *18* | | |
| Basic and diluted | | | |
| – Continuing operation | | **HK$(1.519)** | HK$(3.160) |
| – Discontinued operation | | **N/A** | HK$(0.014) |
| | | **HK$(1.519)** | HK$(3.174) |

# Consolidated Statement of Financial Position

*As at 31 December 2016*

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **2,736,987** | 4,702,753 |
| Investment properties | 20 | **252,888** | 192,870 |
| Goodwill | 21 | **–** | – |
| Available-for-sale financial assets | 22 | **24,981** | 25,209 |
| Intangible assets | 23 | **1,111** | 1,275 |
| | | **3,015,967** | 4,922,107 |
| **Current assets** | | | |
| Inventories | 24 | **1,833** | 14,947 |
| Trade and other receivables | 25 | **131,644** | 140,436 |
| Financial assets at fair value through profit or loss | 26 | **391,868** | 715,674 |
| Pledged deposits | 36 | **50,663** | 80,937 |
| Bank balances and cash | | **240,872** | 277,216 |
| | | **816,880** | 1,229,210 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **196,093** | 223,388 |
| Secured bank loans | 28 | **211,339** | 650,064 |
| | | **407,432** | 873,452 |
| **Net current assets** | | **409,448** | 355,758 |
| **Total assets less current liabilities** | | **3,425,415** | 5,277,865 |
| **Non-current liabilities** | | | |
| Secured bank loans | 28 | **1,446,577** | 1,826,303 |
| **Net assets** | | **1,978,838** | 3,451,562 |

# Consolidated Statement of Financial Position

*As at 31 December 2016*

| | Note | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **EQUITY** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Issued capital | *29* | **381,639** | 381,639 |
| Reserves | *30* | **792,247** | 1,597,789 |
| | | **1,173,886** | 1,979,428 |
| **Non-controlling interests** | | **804,952** | 1,472,134 |
| **Total equity** | | **1,978,838** | 3,451,562 |

Approved and authorized for issue by the Board of Directors on 20 March 2017

**Ng Siu Fai**
*Chairman*

**Ng Kam Wah Thomas**
*Managing Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2016*

| | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Other asset revaluation reserve HK$'000 | Employee share-based compensation reserve HK$'000 | Reserve for available-for-sale financial assets HK$'000 | Retained profits HK$'000 | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2015 | 381,639 | 4,777 | 26,259 | 11,995 | 3,204,195 | 3,628,865 | 2,821,019 | 6,449,884 |
| **Comprehensive loss** | | | | | | | | |
| Loss for the year | – | – | – | – | (1,683,183) | (1,683,183) | (1,338,766) | (3,021,949) |
| **Other comprehensive income** | | | | | | | | |
| Change in fair value arisen from reclassification from leasehold land and buildings to investment properties upon disposal of subsidiaries | – | 30,746 | – | – | – | 30,746 | – | 30,746 |
| Change in fair value of available-for-sale financial assets | – | – | – | 3,000 | – | 3,000 | – | 3,000 |
| **Total comprehensive loss for the year** | – | 30,746 | – | 3,000 | (1,683,183) | (1,649,437) | (1,338,766) | (2,988,203) |
| Disposal of subsidiaries *(Note 6c)* | – | – | – | – | – | – | (10,119) | (10,119) |
| At 31 December 2015 | 381,639 | 35,523 | 26,259 | 14,995 | 1,521,012 | 1,979,428 | 1,472,134 | 3,451,562 |
| At 1 January 2016 | 381,639 | 35,523 | 26,259 | 14,995 | 1,521,012 | 1,979,428 | 1,472,134 | 3,451,562 |
| **Comprehensive loss** | | | | | | | | |
| Loss for the year | – | – | – | – | (805,394) | (805,394) | (667,102) | (1,472,496) |
| **Other comprehensive loss** | | | | | | | | |
| Change in fair value of available-for-sale financial assets | – | – | – | (148) | – | (148) | (80) | (228) |
| **Total comprehensive loss for the year** | – | – | – | (148) | (805,394) | (805,542) | (667,182) | (1,472,724) |
| **Transaction with owners** | | | | | | | | |
| Lapse of employee share options | – | – | (26,259) | – | 26,259 | – | – | – |
| **At 31 December 2016** | **381,639** | **35,523** | **–** | **14,847** | **741,877** | **1,173,886** | **804,952** | **1,978,838** |

# Consolidated Statement of Cash Flows

*Year ended 31 December 2016*

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 32 | **316,894** | 354,530 |
| Interest paid | | **(39,978)** | (38,581) |
| PRC Corporate Income Tax paid | | **–** | (576) |
| **Net cash from operating activities** | | **276,916** | 315,373 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **19,060** | 35,576 |
| Decrease in bank deposits with more than three months to maturity when placed | | **–** | 112,379 |
| Dividend income received | | **6,197** | 16,192 |
| Net cash inflow from disposal of subsidiaries | 6(c) | **–** | 18,699 |
| Purchase of property, plant and equipment | | **(38,937)** | (99,453) |
| Purchase of investment properties | | **(6,668)** | (3,508) |
| Proceeds from disposal of property, plant and equipment | | **530** | – |
| Proceeds from disposal of assets held for sale | | **494,735** | – |
| **Net cash from investing activities** | | **474,917** | 79,885 |
| **FINANCING ACTIVITIES** | | | |
| New secured bank loans | | **–** | 13,124 |
| Repayment of secured bank loans | | **(818,451)** | (676,244) |
| Decrease in pledged deposits | | **30,274** | 95,474 |
| **Net cash used in financing activities** | | **(788,177)** | (567,646) |
| **Net decrease in cash and cash equivalents** | | **(36,344)** | (172,388) |
| **Cash and cash equivalents at 1 January** | | **277,216** | 449,604 |
| **Cash and cash equivalents at 31 December** | | **240,872** | 277,216 |

# Notes to the Consolidated Financial Statements

*Year ended 31 December 2016*

## 1. GENERAL INFORMATION

Jinhui Holdings Company Limited is a limited liability company incorporated and domiciled in Hong Kong. The registered office of the Company is disclosed in the "Directors' Report" on page 40. The Company's shares are listed on the Hong Kong Stock Exchange.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the businesses of ship chartering and ship owning which are carried out internationally.

The ultimate holding company of the Company is Fairline Consultants Limited, a company incorporated in the British Virgin Islands.

The consolidated financial statements for the year ended 31 December 2016 were approved for issue by the Board on 20 March 2017.

## 2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 3. ADOPTION OF NEW OR AMENDED STANDARDS AND INTERPRETATIONS

In current year, the Group has applied for the first time, the following amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2016.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKAS 1 | Presentation of Financial Statements: Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization |
| Amendments to HKAS 27 (2011) | Equity Method in Separate Financial Statements |
| Amendments to HKFRS | Annual Improvements to HKFRS 2012 to 2014 Cycle |

The adoption of these amendments and interpretations do not have any material impact on the consolidated financial statements.

## 3. ADOPTION OF NEW OR AMENDED STANDARDS AND INTERPRETATIONS *(Continued)*

At the date of authorization of these consolidated financial statements, certain other new or amended standards and interpretations have been published but are not yet effective, and have not been early adopted by the Group. The management anticipated that all pronouncements will be adopted in the Group's accounting policy for the first accounting period beginning after the effective dates of the pronouncements. Information on these new pronouncements that are expected to be relevant to the Group's consolidated financial statements is provided below.

| | |
|---|---|
| Amendments to HKAS 7 | Statement of Cash Flows: Disclosure Initiative [1] |
| Amendments to HKAS 12 | Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses [1] |
| HKFRS 9 | Financial Instruments [2] |
| HKFRS 15 | Revenue from Contracts with Customers [2] |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers [2] |
| HKFRS 16 | Leases [3] |

*Notes:*

1. Effective for annual periods beginning on or after 1 January 2017
2. Effective for annual periods beginning on or after 1 January 2018
3. Effective for annual periods beginning on or after 1 January 2019

The management is currently assessing the possible impact of the new or amended standards, in particular HKFRS 9 and HKFRS 16, on the Group's results and financial position in the first year of application but are not yet in the position to conclude its impact on the Group's consolidated financial statements. Certain other new standards and interpretations have also been issued but are not yet effective and are not expected to have material impact on the Group's consolidated financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis modified by revaluation of a leasehold land and buildings and except for: investment properties; financial assets at fair value through profit or loss and available-for-sale financial assets that are stated at fair values. The measurement bases are fully described in the accounting policies below.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.1 Basis of preparation *(Continued)*

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

### 4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

### 4.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

### 4.4 Non-controlling interests

Non-controlling interests represent the equity on consolidated subsidiaries not attributable directly or indirectly to the shareholders of the Company.

Non-controlling interests in consolidated subsidiaries are presented in the consolidated statement of financial position within equity, separately from the equity attributable to shareholders of the Company. Non-controlling interests in the results of the Group are presented separately in the consolidated statement of profit or loss and other comprehensive income as an allocation of the Group's net profit and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

All transactions with non-controlling interests that do not result in a loss of control in a subsidiary are accounted for as transaction between equity holders, whereby adjustments are made to the amounts of controlling interests within equity to reflect the change in relative interests.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.5 Foreign currency translation

The consolidated financial statements are presented in Hong Kong Dollars which is the functional and presentation currency of the Company. The functional and presentation currencies of the Company's subsidiaries are either in United States Dollars or Hong Kong Dollars.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates ruling at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognized in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong Dollars. Assets and liabilities have been translated into Hong Kong Dollars at the closing rates at the reporting date. Income and expenses have been converted into Hong Kong Dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any significant differences arising from this translation procedure are recognized in other comprehensive income and accumulated separately in the translation reserve in equity.

### 4.6 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Revenue from the operations of ship chartering or owning business comprises chartering freight and hire income. Freight income from voyage charter is accrued over the period from the date of loading of charterer's cargo to the date of discharging the cargo and is recognized on percentage of completion basis measured by time proportion of each voyage charter contract. Hire income from time charter is accounted for as operating lease and is recognized on a straight-line basis over the period of each time charter contract.

Sale of goods from trading business comprises the aggregate of the invoiced value of goods sold and is recognized upon transfer of the significant risks and rewards of ownership to the customers when the goods are delivered and the titles have been passed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.7 Borrowing costs

Borrowing costs incurred for the acquisition or construction of any qualifying asset are capitalized during the period of time that is required to complete or prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed as incurred.

The capitalization of borrowing costs as part of the qualifying assets commence when borrowing costs are being incurred and the activities that are necessary to prepare the asset for its intended use are in progress. Capitalization of borrowing costs is suspended or ceased when substantially all activities necessary to prepare the qualifying assets for its intended use are interrupted or completed.

### 4.8 Income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and / or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. It is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realized, provided these tax rates have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax losses available to be carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

For investment properties measured using the fair value model in accordance with the accounting policy above, the measurement of the related deferred tax liability or asset reflects the tax consequences of recovering the carrying amount of the investment properties entirely through sale, unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets or liabilities are not recognized if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of assets or liabilities in a transaction that affects neither taxable nor accounting profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.8 Income tax *(Continued)*

Changes in deferred tax assets or liabilities are recognized in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

### 4.9 Property, plant and equipment

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Improvements are capitalized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures incurred in restoring assets to their normal working conditions and other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Motor vessels are stated at cost less accumulated depreciation and impairment loss.

Drydocking and special survey costs are capitalized and depreciated over the drydocking cycle of two to three years on a straight-line basis. Upon disposal of vessels, any relevant carrying amounts not yet written off are transferred to profit or loss. Vessel repairs and survey costs are expensed during the financial period in which they are incurred.

Vessels under construction are stated at cost less impairment loss. All direct costs relating to the acquisition of motor vessels which are under construction, including finance costs on related borrowing funds during the construction period are capitalized as vessels under construction. When the assets concerned are available for use, the costs are transferred to motor vessels and depreciated in accordance with the policy as stated below.

Land held under operating leases and buildings thereon (where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at cost less accumulated depreciation and impairment loss, except for a leasehold land and building which is stated at valuation made in 1994 by a professional valuer on an open market existing use basis less accumulated depreciation and impairment loss.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 “Property, Plant and Equipment” issued by the HKICPA from the requirement to make regular revaluation of a leasehold land and building which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of the entire class of leasehold land and buildings is carried out.

All other property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.9 Property, plant and equipment *(Continued)*

Depreciation is provided to write-off the cost of motor vessels over their estimated useful lives, after taking into account their estimated residual values, using the straight-line method of 25 years from the date of the initial delivery from the shipyards.

Estimated residual value is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, as if the asset was already of the age and in the conditions expected at the end of its useful life. The Group estimates the residual values of motor vessels based on the light-weight tonnes of each vessel multiply by market demolition metal price per ton.

Depreciation is provided to write-off the cost or valuation of other property, plant and equipment as specified below over their estimated useful lives, after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | over the shorter of unexpired term of lease or 3% per annum |
| Plant and machinery | 20% per annum |
| Leasehold improvement | 20% – 30% per annum |
| Utility vessels, furniture and equipment | 6% – 25% per annum |

No depreciation is provided in respect of vessels under construction.

The gain or loss arising on retirement or disposal is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

### 4.10 Investment properties

Investment properties are land and / or buildings which are owned or held under a leasehold interest to earn rental income and / or for capital appreciation.

When the Group holds a property interest under an operating lease to earn rental income and / or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value which is determined by external professional valuers with sufficient experience with respect to both the location and category of the investment property and it reflects the prevailing market conditions at the reporting date.

Gain or loss arising from either changes in the fair value or the sale of an investment property is recognized in profit or loss in the period in which they arise.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.11 Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group.

Goodwill is stated at cost less impairment loss. Goodwill is allocated to cash generating units, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

### 4.12 Intangible assets

Intangible assets acquired separately are recognized initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and any impairment loss. Amortization for intangible assets is provided on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Club entrance fee | 36 years |
| Berth license | 10 years |

Amortization commences when the intangible assets are available for use.

### 4.13 Impairment of non-financial assets

Property, plant and equipment, goodwill and intangible assets are subject to impairment testing. Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amounts may not be recoverable.

An impairment loss is recognized as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions, less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purpose of assessing impairment, where an asset does not generate cash inflows that are largely independent of the cash flows from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash generating unit). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level. Goodwill in particular is allocated to those cash generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.13 Impairment of non-financial assets *(Continued)*

Impairment loss recognized for cash generating unit, to which goodwill has been allocated, is firstly allocated to reduce the carrying amount of goodwill. Any remaining impairment loss recognized is allocated to reduce the carrying amounts of the other assets in the cash generating unit on pro rata basis. In allocating the impairment loss, the carrying amount of an asset will not be reduced below the highest of its fair value less costs of disposal, value in use or zero. An impairment loss on goodwill is not reversed in subsequent periods.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years.

### 4.14 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

### 4.15 Financial assets

Financial assets are recognized when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets have expired or substantially all the risks and rewards of ownership have been transferred.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date. The Group classifies its financial assets into the following categories:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit-taking.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value determined by reference to active market transactions or by reference to price quotations for equivalent financial instruments in active markets provided by financial institutions. Any changes in fair value excluding any dividend and interest income are recognized in profit or loss. Dividend income from financial assets at fair value through profit or loss is recognized when the right to receive dividend is established.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.15 Financial assets *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss. Amortized cost is calculated taking into account any discount or premium, transaction cost on acquisition and includes fees paid that form an integral part of the effective interest rate. Trade and other receivables, bank deposits and bank balances are classified as loans and receivables. Interest income from loans and receivables are recognized on a time proportion basis using the effective interest method.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group has the intention to hold assets in this category for the foreseeable future.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from changes in the fair value excluding any dividend and interest income is recognized in other comprehensive income and accumulated separately in the reserve for available-for-sale financial assets in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized is reclassified from equity to profit or loss. Upon disposal, the cumulative gain or loss previously recognized in other comprehensive income and accumulated in equity is transferred to profit or loss.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment loss at each reporting date subsequent to initial recognition.

*Impairment of financial assets*

At each reporting date, financial assets other than those at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate computed at initial recognition.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.15 Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

When the recovery of loans and receivables carried at amortized costs is considered impaired, the impairment loss for loans and receivables are recorded using an allowance account. The amount of the loss on loans and receivables is recognized in profit or loss of the period in which the impairment occurs. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recovery of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recovery of amounts previously written off directly are recognized in profit or loss.

When there is objective evidence that available-for-sale financial assets carried at costs are impaired, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment loss in respect of available-for-sale investment in equity securities carried at cost recognized in profit or loss in any interim period or prior years are not reversed in subsequent periods.

### 4.16 Discontinued operation

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. The component comprises operations and cash flows that can be clearly distinguished from the rest of the Group and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount in the consolidated statement of profit or loss and other comprehensive income comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognized on the measurement to fair value less costs of disposal or on the disposal of the assets or disposal group(s) constituting the discontinued operation. During the year 2015, the Group disposed its entire trading business and this segment has been presented as discontinued operation in note 6.

### 4.17 Assets held for sale

Non-current assets are classified as held for sale when:

(a) they are available for immediate sale;
(b) management is committed to a plan to sell;
(c) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
(d) an active programme to locate a buyer has been initiated;
(e) the asset is being marketed at a reasonable price in relation to its fair value; and
(f) a sale is expected to complete within 12 months from the date of classification.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.17 Assets held for sale *(Continued)*

Non-current assets classified as held for sale are measured at the lower of their carrying amount immediately prior to being classified as held for sale and fair value less costs of disposal. Following their classification as held for sale, the assets are not depreciated. An impairment loss is recognized as an expense immediately for the amount by which the asset's carrying amount prior to being classified as held for sale exceeds its fair value less costs of disposal. The gain or loss of assets being disposed of during the year are included in the statement of profit or loss and other comprehensive income up to the date of disposal.

### 4.18 Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

The Group classifies its financial liabilities into the following categories:

*Trade and other payables*

Trade and other payables are recognized initially at fair values and subsequently measured at amortized costs, using the effective interest method.

*Borrowings*

Borrowings are recognized initially at fair values, net of transaction costs incurred. Borrowings are subsequently stated at amortized costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the reporting date.

### 4.19 Fair value measurement

For financial reporting purposes, fair value measurement is categorized into Level 1, 2 and 3 of the three-level fair value hierarchy as defined under HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.

Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.20 Financial guarantee issued

A financial guarantee contract is a contract that requires the guarantor to make specified payments to reimburse the holder of the guarantee for a loss the holder incurs because a specified party fails to make payment when due in accordance with the terms of a debt or other instrument.

Where an entity within the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of financial guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the financial guarantee initially recognized as deferred income is amortized as income in profit or loss over the term of the guarantee from the date of issuance of financial guarantee. In addition, provisions are recognized if and when it becomes probable that the holder of the financial guarantee will call upon the Group under the guarantee and the amount of that claim to the Group is expected to exceed the current carrying amount that represented the amount initially recognized less accumulated amortization, where appropriate.

### 4.21 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and 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, with original maturities of three months or less. For the purpose of statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 4.22 Share capital

Ordinary shares are classified as equity. Share capital is recognized at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares to the extent they are incremental costs directly attributable to the equity transaction.

### 4.23 Employee share-based compensation

The Company operates a share option scheme for remuneration to eligible persons including Directors, officers and employees of the Group.

All employee services received in exchange for the grant of any share options are measured at fair values. These are indirectly determined by reference to the share options awarded. Their values are appraised at the grant dates and exclude the impact of any non-market vesting conditions.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.23 Employee share-based compensation *(Continued)*

Employee share-based compensation is recognized as an expense in profit or loss with a corresponding increase in employee share-based compensation reserve. If vesting periods or other vesting conditions apply, the expense is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognized in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised or lapsed, the amount previously recognized will continue to be held in employee share-based compensation reserve. At the time when all share options are still not exercised at the expiry date, the amount previously recognized in employee share-based compensation reserve will be transferred to retained profits.

### 4.24 Employee benefits

*Retirement benefits schemes*

The Group operates a defined contribution provident fund scheme and a mandatory provident fund scheme. The assets of the schemes are held separately from those of the Group in their respective schemes managed by an independent trustee. The contributions to retirement benefits schemes charged to profit or loss represent contributions payable to the funds by the Group at the rates specific in the rules of the schemes.

The contributions to the defined contribution provident fund scheme vest in employees according to the vesting percentage set out in the scheme. When employees leave the defined contribution provident fund scheme prior to being vested fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. On the other hand, the contributions to the mandatory provident fund scheme vest immediately and fully in employees once the contributions are payable by the Group. There is no forfeited contribution when employees leave the mandatory provident fund scheme.

*Short term employee benefits*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognized until the time of leave.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.25 Leases

An arrangement, comprising a transaction or series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership of the assets to the Group are classified as operating leases, with the following exceptions:

– property held under operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

*Operating lease (as lessee)*

Where the Group uses assets under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms.

*Assets leased out under operating leases (as lessor)*

Where the Group leases out assets under operating leases, such assets are measured and presented according to the nature of the asset.

Rental income receivable from operating leases is recognized in profit or loss on a straight-line basis over the lease terms.

Hire income applicable to operating leases in respect of time charters are recognized as revenue on time basis over the period of each lease.

Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net income receivable from the lease.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.26 Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are not recognized but are disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow of economic benefits occurs, and an outflow is probable, it will then be recognized as a provision.

### 4.27 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.27 Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint venture of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 4.28 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. After the trading business being disposed in year 2015, the Group has regarded the business of ship chartering and ship owning as the only dominant reportable operating segment to be reported to the chief operating decision maker. Thus, no analysis of segment revenue, segment results, segment assets and segment liabilities are presented in the consolidated financial statements for the year 2016.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

### 5.1 Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Impairment of owned vessels***

For the first half of 2016, it had been the worst for dry bulk shipping market as asset prices had gone in a downward spiral given the literal meltdown of confidence. The market has since rebounded significantly from its trough but while we believe the market will continue to recover where a better balance of demand and supply of vessels, we continue to see uncertainties with respect to the global economic outlook, particularly the freight market as well as the financial, commodity and currency markets going forward. This will inevitably introduce volatility to our business performance, as well as the carrying value of our shipping assets and financial assets. In view of the significant decrease in market value of dry bulk vessels in the market, the management considered that impairment indication of the Group's fleet existed at end of 2016.

With due considerations of factors affecting the long term intrinsic values of owned dry bulk vessels in the impairment review, the Group's owned vessels' recoverable amounts which were determined based on value in use and were significantly less than their respective carrying amounts at end of 2016. Based on the results of the impairment assessment of owned vessels at the reporting date, the carrying amounts of owned vessels exceeded their respective recoverable amounts of HK$2,578,134,000 which were determined based on value in use. Accordingly, an impairment loss of HK$881,478,000 on owned vessels was recognized at end of 2016. The value in use calculation of owned vessels was appraised by an independent qualified appraisal firm. For the year 2015, the Group recorded an impairment loss of HK$2,535,083,000 on owned vessels with recoverable amounts of HK$4,302,386,000 which were determined based on value in use. Changes in circumstances may result in revisions to estimates of recoverable amounts of owned vessels and to the conclusion as to whether an indication of impairment of owned vessels exists.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 5.1 Critical accounting estimates and assumptions *(Continued)*

***Key assumptions applied in value in use calculation in impairment assessment of owned vessels***

The Group has to make estimation and assumptions in the area of impairment test on owned vessels. The recoverable amounts of owned vessels have been determined based on value in use calculations. The value in use of owned vessels is estimated based on estimated future cash flows projections from the continuous use of such vessels. Key assumptions applied in value in use calculation mainly included discount rate and hire rates earned by each vessel as the value in use is most sensitive to the changes in these two factors. Other assumptions included utilization rate, which is assumed to be 95% (2015: 95%) in all subsequent years; and vessels are expected to have useful life of 25 (2015: 25) years from the date of the initial delivery from the shipyards. The net cash flow also reflected the estimated drydocking and special surveys costs and vessels operating expenses. Key assumptions applied to the first five-year period in the estimated future cash flows projections from the continuous use of such vessels and cash flows beyond the five-year period are extrapolated using the zero growth rate.

The hire rates applied in the impairment test on owned vessels for the years of 2016 and 2015 were based on management's best estimation, taking into consideration of historical performances, market research data, industry cycle and market expectation. Estimated hire rates for upcoming years are based on current market rates and the management assumed the hire rates would remain at low level in the first few years and slowly trend upward in subsequent years. No growth in hire rates is assumed for cash flows beyond the five-year period. The estimated hire rates in subsequent years do not exceed the Group's historical 10 years average hire rates, which has already reflected the average cyclical effect of the industry.

The discount rate applied to the value in use calculation on owned vessels was 9.37% (2015: 9.09%), which was a pre-tax rate that reflected current market assessments of time value of money and the risks specific to the assets.

***Sensitivity of value in use calculation in impairment assessment of owned vessels***

With all other variables remaining constant, it was estimated that a decrease of 5% (2015: 5%) in hire rates applied in the impairment test at the reporting date, the impairment loss on owned vessels recognized and net loss for the year would increase by approximately HK$244,148,000 (2015: HK$402,037,000) and the carrying amount of the Group's owned vessels would decrease by 9.47% (2015: 8.9%).

With all other variables remaining constant, it was estimated that an increase of 5% (2015: 5%) in the discount rate applied in the impairment test at the reporting date, the impairment loss on owned vessels recognized and net loss for the year would increase by approximately HK$72,095,000 (2015: HK$137,940,000) and the carrying amount of the Group's owned vessels would decrease by 2.80% (2015: 3.0%).

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 5.2 Critical judgements in applying the Group's accounting policies

The significant judgement made in the process of applying the Group's accounting policies are discussed below.

***Impairment of trade receivables***

In determining whether trade receivables is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in assessing whether there is any objective evidence of impairment. In making the judgement, the Group evaluates if there is any event that comes to the attention of the Group such as significant financial difficulty of the charterers; whether there is any breach of charter contract, such as a default or delinquency in hire payments; whether it becoming probable that the charterers will enter bankruptcy or other financial reorganization; or whether there is any significant change in the technological, market, economic or legal environment that has an adverse effect on the charterers.

## 6. DISPOSAL GROUP AND DISCONTINUED OPERATION

On 1 June 2015, the Group announced to dispose its trading business by selling its entire 75% equity interest in Yee Lee Technology Company Limited ("YLTCL") and YLTCL and its subsidiaries ("YL Group") had ceased to be treated as subsidiaries of the Company upon completion of the disposal in June 2015. The disposal allowed the Group be better focus and concentrated its resources on shipping business in the prevailing tough operating environment and allowed the management to consider other business which could bring synergy to its shipping business in future.

The operating results of the disposed trading business for the year ended 31 December 2015 have been presented as discontinued operation.

## 6. DISPOSAL GROUP AND DISCONTINUED OPERATION *(Continued)*

**(a) Loss from discontinued operation**

The analysis of the loss from discontinued trading business for the year ended 31 December 2015, presented as discontinued operation in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" is as follows:

| | 2015<br>*HK$'000* |
|---|---|
| **DISCONTINUED OPERATION** | |
| **Revenue** | 125,875 |
| Other operating income | 634 |
| Interest income | 10 |
| Cost of trading goods sold | (121,402) |
| Staff costs | (3,367) |
| Other operating expenses | (11,359) |
| **Operating loss before depreciation and amortization** | (9,609) |
| Depreciation and amortization | (29) |
| **Operating loss** | (9,638) |
| Finance costs | (180) |
| **Loss before taxation** | (9,818) |
| Taxation | (281) |
| **Loss for the year from discontinued operation** | (10,099) |
| **Loss for the year attributable to:** | |
| Shareholders of the Company | (7,511) |
| Non-controlling interests | (2,588) |
| | (10,099) |

**(b) Analysis of the cash flows from discontinued operation:**

| | 2015<br>*HK$'000* |
|---|---|
| **DISCONTINUED OPERATION** | |
| Net cash from operating activities | 7,479 |
| Net cash from investing activities | 10 |
| **Net cash inflow from discontinued operation** | 7,489 |

## 6. DISPOSAL GROUP AND DISCONTINUED OPERATION *(Continued)*

**(c) Notes to consolidated statement of cash flows – Net cash inflow from disposal of YL Group:**

| | 2015 |
|---|---|
| | *HK$'000* |
| **Net assets disposed of as at the date of disposal:** | |
| Property, plant and equipment | 214 |
| Inventories | 21,454 |
| Trade and other receivables | 66,787 |
| Bank balances and cash | 13,301 |
| Trade and other payables | (27,161) |
| Current taxation | (165) |
| Secured bank loans | (32,334) |
| | 42,096 |
| Non-controlling interests | (10,119) |
| | 31,977 |
| Gain on disposal of subsidiaries | 23 |
| **Total consideration** | 32,000 |
| **Satisfied by:** | |
| Cash | 32,000 |
| **Analysis of net cash flow arising from the disposal:** | |
| Cash consideration | 32,000 |
| Bank balances and cash disposed of | (13,301) |
| **Net cash inflow from disposal of subsidiaries** | 18,699 |

## 7. SEGMENT INFORMATION

The Group is principally engaged in the business of ship chartering and ship owning and the management has regarded this business as the only dominant reportable operating segment to be reported to the chief operating decision maker. Thus, no analysis of segment revenue, segment results, segment assets and segment liabilities are presented in the consolidated financial statements for the year 2016.

## 7. SEGMENT INFORMATION *(Continued)*

The Group disposed its entire trading business during the year 2015 and this segment has been presented as discontinued operation in note 6. The following table present the Group's reportable segment revenue, segment results, segment assets and segment liabilities, and reconcile the Group's total reportable segment results, segment assets and segment liabilities to the Group's loss for the year 2015, total assets and total liabilities as presented in the consolidated financial statements as at 31 December 2015.

| | Continuing operation | Discontinued operation | |
|---|---|---|---|
| | Chartering freight and hire | Trading | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Year ended 31 December 2015* | | | |
| Segment revenue | 673,163 | 125,875 | 799,038 |
| Segment results | (2,836,554) | (9,828) | (2,846,382) |
| *Unallocated income and expenses* | | | |
| Interest income | | | 32,751 |
| Unallocated other operating income | | | 31,543 |
| Unallocated corporate expenses | | | (239,580) |
| Loss before taxation | | | (3,021,668) |
| Taxation | | | (281) |
| Loss for the year | | | (3,021,949) |
| *As at 31 December 2015* | | | |
| Segment assets | 4,642,314 | – | 4,642,314 |
| *Unallocated assets* | | | |
| Pledged deposits | | | 80,937 |
| Bank balances and cash | | | 277,216 |
| Other current assets | | | 760,674 |
| Other non-current assets | | | 390,176 |
| Total assets | | | 6,151,317 |
| Segment liabilities | 2,689,977 | – | 2,689,977 |
| *Unallocated liabilities* | | | |
| Other current liabilities | | | 9,778 |
| Total liabilities | | | 2,699,755 |

## 7. SEGMENT INFORMATION *(Continued)*

Segment results for the year 2015 represented operating results of each reportable segment without allocation of interest income, unallocated other operating income, unallocated corporate expenses, and taxation. All assets are allocated to reportable segments other than pledged deposits, bank balances and cash and other corporate assets which are not directly attributable to the business activities of any reportable segments. All liabilities are allocated to reportable segments other than corporate liabilities which are not directly attributable to the business activities of any reportable segments.

| | Continuing operation | Discontinued operation | | |
|---|---|---|---|---|
| | Chartering freight and hire | Trading | Unallocated | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Other segment information** | | | | |
| 2015 | | | | |
| Depreciation and amortization | 412,738 | 29 | 13,581 | 426,348 |
| Finance costs | 36,831 | 180 | 1,136 | 38,147 |
| Impairment loss on owned vessels | 2,535,083 | – | – | 2,535,083 |
| Impairment loss on trade and other receivables | 5,471 | – | – | 5,471 |
| Capital expenditures | 84,163 | – | 18,948 | 103,111 |

While the Group's revenue was mainly attributable to its chartering operations which are carried out internationally and cannot be attributable to any particular geographical location, no analysis of revenue from chartering freight and hire business by geographical area is presented in the consolidated financial statements.

The Group's non-current assets mainly consist of property, plant and equipment. Property, plant and equipment mainly comprised of the Group's motor vessels. As the Group's motor vessels are operated across different geographical regions, it is meaningless to identify the specific geographical locations of the motor vessels at the reporting date. While majority of the Group's non-current assets cannot be attributable to any particular geographical location, no analysis of non-current assets by geographical area is presented in the consolidated financial statements.

## 8. REVENUE

Revenue represents chartering freight and hire income arising from the Group's owned vessels and the aggregate of the invoiced value of goods sold. Revenue recognized during the year is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | |
| Chartering freight and hire income: | | |
| Hire income under time charters | **447,811** | 557,521 |
| Freight income under voyage charters | **19,838** | 115,642 |
| | **467,649** | 673,163 |
| **DISCONTINUED OPERATION** | | |
| Sale of goods | **–** | 125,875 |
| | **467,649** | 799,038 |

**Information about major charterers**

Revenue of HK$82,929,000 and HK$81,981,000 were derived from two charterers that contributed both 18% to the Group's revenue for the year 2016. During year 2015, revenue of HK$111,706,000 and HK$102,715,000 were derived from two charterers that contributed 14% and 13% respectively to the Group's revenue for the year 2015.

## 9. OTHER OPERATING INCOME

Other operating income for the year 2016 mainly included change in fair value of investment properties of HK$53,350,000 and settlement income of HK$43,841,000 from charterers in relation to repudiation claims.

Other operating income for the year 2015 mainly included settlement income of HK$183,271,000 from charterers in relation to repudiation claims.

## 10. STAFF COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | |
| Salaries and other benefits | **75,127** | 84,053 |
| Contributions to retirement benefits schemes | **3,495** | 4,272 |
| | **78,622** | 88,325 |
| **DISCONTINUED OPERATION** | | |
| Salaries and other benefits | **–** | 3,132 |
| Contributions to retirement benefits schemes | **–** | 235 |
| | **–** | 3,367 |
| | **78,622** | 91,692 |

## 11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

Emoluments of the Directors, including the chief executives [1] of the Company for the years 2016 and 2015 are set out below:

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonus HK$'000 | Contributions to retirement benefits schemes HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Executive Directors** | | | | | |
| Ng Siu Fai | **1,933** | **18,045** | **1,600** | **1,001** | **22,579** |
| Ng Kam Wah Thomas | **1,933** | **17,832** | **1,600** | **1,001** | **22,366** |
| Ng Ki Hung Frankie | **1,326** | **2,501** | **–** | **72** | **3,899** |
| Ho Suk Lin | **468** | **1,705** | **–** | **97** | **2,270** |
| **Independent Non-executive Directors** | | | | | |
| Cui Jianhua | **212** | **–** | **–** | **–** | **212** |
| Tsui Che Yin Frank | **441** | **–** | **–** | **–** | **441** |
| William Yau | **372** | **–** | **–** | **–** | **372** |
| | **6,685** | **40,083** | **3,200** | **2,171** | **52,139** |
| 2015 | | | | | |
| **Executive Directors** | | | | | |
| Ng Siu Fai | 1,933 | 23,366 | 1,560 | 1,325 | 28,184 |
| Ng Kam Wah Thomas | 1,933 | 23,160 | 1,560 | 1,325 | 27,978 |
| Ng Ki Hung Frankie | 1,326 | 2,424 | 292 | 72 | 4,114 |
| Ho Suk Lin | 468 | 1,685 | 278 | 97 | 2,528 |
| **Independent Non-executive Directors** | | | | | |
| Cui Jianhua | 212 | – | – | – | 212 |
| Tsui Che Yin Frank | 441 | – | – | – | 441 |
| William Yau | 372 | – | – | – | 372 |
| | 6,685 | 50,635 | 3,690 | 2,819 | 63,829 |

*Note:*

1. Chief executives of the Company are Mr. Ng Siu Fai and Mr. Ng Kam Wah Thomas, who are responsible under the immediate authority of the Board for the conduct of the Company.

## 11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (b) Details of remuneration to senior management

Emoluments of senior management (non-director) of the Company are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2016** | 2015 |
| HK$0 to HK$1,000,000 | **–** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| HK$5,500,001 to HK$6,000,000 | **1** | – |
| | **3** | 4 |

### (c) The five highest paid individuals

The five highest paid individuals included four (2015: four) Directors whose details of emoluments are presented on page 86. Emoluments of the remaining one (2015: one) highest paid individual fall within the band from HK$5,500,001 to HK$6,000,000 (2015: from HK$2,000,001 to HK$2,500,000) and his aggregate emoluments were as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **5,538** | 2,124 |
| Contributions to retirement benefits schemes | **18** | 34 |
| | **5,556** | 2,158 |

## 12. OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION

This is stated after charging / (crediting):

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | |
| Auditor's remuneration | **1,847** | 1,934 |
| Operating lease payments in respect of premises | **1,785** | 1,078 |
| Net loss on financial assets at fair value through profit or loss | | |
| Realized loss on financial assets at fair value through profit or loss | **15,900** | 48,612 |
| Unrealized loss on financial assets at fair value through profit or loss | **3,189** | 118,173 |
| Interest income in respect of: | | |
| Financial assets at fair value through profit or loss | **(13,297)** | (25,360) |
| Deposits with banks and other financial institutions | **(3,245)** | (7,381) |
| Dividend income | **(6,672)** | (18,283) |
| Loss on write-off of vessel under construction | **–** | 22,698 |
| Net gain on disposal / write-off of property, plant and equipment | **(684)** | (150) |
| Change in fair value of investment properties | **(53,350)** | (8,172) |
| Gain on disposal of subsidiaries | **–** | (23) |
| Impairment loss (Reversal of impairment loss) on trade and other receivables | **(389)** | 5,471 |
| Net exchange loss | **306** | 2,849 |
| Gross rental income from operating leases on investment properties | **(5,486)** | (4,482) |
| Outgoings in respect of investment properties | **163** | 250 |
| Bad debts written off | **151** | 282 |

| | | |
|---|---|---|
| **DISCONTINUED OPERATION** | | |
| Auditor's remuneration | **–** | – |
| Cost of inventories | **–** | 121,402 |
| Operating lease payments in respect of premises | **–** | 1,372 |
| Interest income | **–** | (10) |
| Net exchange gain | **–** | (32) |

## 13. IMPAIRMENT LOSS ON OWNED VESSELS

For the first half of 2016, it had been the worst for dry bulk shipping market as asset prices had gone in a downward spiral given the literal meltdown of confidence. The market has since rebounded significantly from its trough but while we believe the market will continue to recover where a better balance of demand and supply of vessels, we continue to see uncertainties with respect to the global economic outlook, particularly the freight market as well as the financial, commodity and currency markets going forward. This will inevitably introduce volatility to our business performance, as well as the carrying value of our shipping assets and financial assets. In view of the significant decrease in market value of dry bulk vessels in the market, the management considered that impairment indication of the Group's fleet existed at end of 2016. With due considerations of factors affecting the long term intrinsic values of owned dry bulk vessels in the impairment review, the Group's owned vessels' recoverable amounts which were determined based on value in use and were significantly less than their respective carrying amounts at end of 2016. Accordingly, an impairment loss of HK$881,478,000 on owned vessels was recognized at end of 2016 to reflect our change in the expectation on the long term global economic and the dry bulk shipping industry outlook which affect the assumptions applied in estimation of the value in use of our vessels.

For the year 2015, the Group recorded impairment loss of HK$2,535,083,000 on owned vessels.

Details of the events that led to the recognition of the impairment loss, impairment indicators, key assumptions applied in the value in use calculation, recoverable amounts of impaired assets, and the sensitivity analysis are provided in note 5.

## 14. IMPAIRMENT LOSS ON ASSETS HELD FOR SALE

The Group took the opportunity to enter into eight memorandums of agreement to dispose two Panamaxes, five Supramaxes and one Handymax at a total consideration of US$65,100,000 (approximately HK$507,780,000) in 2016. These eight vessels had been delivered to the purchasers in the year. The disposal of these eight vessels would enable the Group to enhance its working capital position and to strengthen its liquidity, and optimize the fleet profile through this ongoing management of asset portfolio as well as keeping our strategy to maintain a young and modern fleet. Given the unpredictable and often high earnings volatility in our industry, the disposal of the vessels can further reduce our debt service pressure from both principal repayments and interest payments in an expected rising interest rate environment. For financial reporting purposes, these eight disposed vessels were reclassified to "Assets held for sale" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", with a total impairment loss on assets held for sale (disposed vessels) of HK$354,602,000 was recognized in 2016 upon reclassification to assets held for sale. For the year 2015, no impairment loss on assets held for sale was recognized.

## 15. FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | |
| Interest on secured bank loans and overdrafts | **39,902** | 37,967 |
| **DISCONTINUED OPERATION** | | |
| Interest on secured bank loans and overdrafts | **–** | 180 |
| | **39,902** | 38,147 |

## 16. TAXATION

Hong Kong Profits Tax has not been provided as the Group has no assessable profits for the year. In the opinion of the Directors, a substantial portion of the Group's income neither arose in nor was derived from Hong Kong and therefore was not subject to Hong Kong Profits Tax. PRC Corporate Income Tax had been provided at the applicable rate on the estimated assessable profits of a PRC subsidiary for the year 2015. There was no assessable income to be charged under PRC Corporate Income Tax for the year 2016. The Group is not subject to taxation in any other jurisdictions in which the Group operates.

The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATION** | | |
| Hong Kong Profits Tax – current year | **–** | – |
| **DISCONTINUED OPERATION** | | |
| PRC Corporate Income Tax – current year | **–** | 281 |
| | **–** | 281 |

## 16. TAXATION *(Continued)*

Reconciliation between taxation charge and accounting loss at the applicable tax rates:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation | **(1,472,496)** | (3,021,668) |
| Income tax at the applicable tax rates in the tax jurisdictions concerned | **(4,138)** | (41,838) |
| Non-deductible expenses | **3,515** | 13,354 |
| Tax exempted revenue | **(10,311)** | (5,827) |
| Unrecognized tax losses | **11,145** | 36,208 |
| Unrecognized temporary differences | **(122)** | (1,230) |
| Utilization of previously unrecognized tax losses | **(89)** | (386) |
| Taxation charge for the year | **–** | 281 |
| Represented by: | | |
| Continuing operation | **–** | – |
| Discontinued operation | **–** | 281 |
| Taxation charge for the year | **–** | 281 |

The applicable tax rates are the weighted average of current rates of taxation ruling in the relevant jurisdictions.

## 17. DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2016 (2015: nil).

## 18. LOSS PER SHARE

For the year 2016, basic and diluted loss per share from continuing operation were calculated on the loss from continuing operation attributable to shareholders of the Company of HK$805,394,000 for the year and the weighted average number of 530,289,480 ordinary shares in issue during the year.

No basic and diluted loss per share from discontinued operation was calculated for the year 2016 since no discontinued operation arose in the year.

For the year 2015, basic and diluted loss per share from continuing operation were calculated on the loss from continuing operation attributable to shareholders of the Company of HK$1,675,672,000 for the year and the weighted average number of 530,289,480 ordinary shares in issue during the year 2015. Basic and diluted loss per share from discontinued operation were calculated on the loss from discontinued operation attributable to shareholders of the Company of HK$7,511,000 for the year and the weighted average number of 530,289,480 ordinary shares in issue during the year 2015.

Diluted loss per share for the years 2016 and 2015 were the same as basic loss per share, the impact of share options granted under the Company's share option scheme would have an anti-dilutive effect.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Motor Vessels [1] and capitalized drydocking costs HK$'000 | Vessels under construction HK$'000 | Leasehold land and buildings HK$'000 | Plant and machinery HK$'000 | Leasehold improvement, utility vessels, furniture and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2015 | 11,062,843 | 22,698 | 305,683 | 460 | 50,208 | 11,441,892 |
| Reclassification to investment properties upon disposal of subsidiaries *(Note 20)* | – | – | (23,357) | – | – | (23,357) |
| Additions | 84,163 | – | – | – | 15,440 | 99,603 |
| Disposals / write-off | (72,066) | (22,698) | – | (460) | (3,193) | (98,417) |
| At 31 December 2015 | 11,074,940 | – | 282,326 | – | 62,455 | 11,419,721 |
| Reclassification to assets held for sale [3] | (2,584,960) | – | – | – | – | (2,584,960) |
| Additions | 38,310 | – | – | – | 818 | 39,128 |
| Disposals / write-off | (38,364) | – | – | – | (713) | (39,077) |
| **At 31 December 2016** | **8,489,926** | **–** | **282,326** | **–** | **62,560** | **8,834,812** |
| **Accumulated depreciation and impairment loss** | | | | | | |
| At 1 January 2015 | 3,667,345 | – | 139,239 | 460 | 38,935 | 3,845,979 |
| Reclassification to investment properties upon disposal of subsidiaries *(Note 20)* | – | – | (14,773) | – | – | (14,773) |
| Charge for the year | 412,673 | – | 9,065 | – | 4,446 | 426,184 |
| Eliminated on disposals / write-off | (72,066) | – | – | (460) | (2,979) | (75,505) |
| Impairment loss recognized [2] | 2,535,083 | – | – | – | – | 2,535,083 |
| At 31 December 2015 | 6,543,035 | – | 133,531 | – | 40,402 | 6,716,968 |
| Reclassification to assets held for sale [3] | (1,735,623) | – | – | – | – | (1,735,623) |
| Charge for the year | 261,266 | – | 8,715 | – | 4,061 | 274,042 |
| Eliminated on disposals / write-off | (38,364) | – | – | – | (676) | (39,040) |
| Impairment loss recognized [2] | 881,478 | – | – | – | – | 881,478 |
| **At 31 December 2016** | **5,911,792** | **–** | **142,246** | **–** | **43,787** | **6,097,825** |
| **Net book value** | | | | | | |
| **At 31 December 2016** | **2,578,134** | **–** | **140,080** | **–** | **18,773** | **2,736,987** |
| At 31 December 2015 | 4,531,905 | – | 148,795 | – | 22,053 | 4,702,753 |

## 19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of the cost or valuation of property, plant and equipment by category is as follows:

| | Motor vessels and capitalized drydocking costs | Leasehold land and buildings | Leasehold improvement, utility vessels, furniture and equipment | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2016** | | | | |
| At cost | **8,489,926** | **229,326** | **62,560** | **8,781,812** |
| At professional valuation in 1994 | **–** | **53,000** | **–** | **53,000** |
| | **8,489,926** | **282,326** | **62,560** | **8,834,812** |
| 2015 | | | | |
| At cost | 11,074,940 | 229,326 | 62,455 | 11,366,721 |
| At professional valuation in 1994 | – | 53,000 | – | 53,000 |
| | 11,074,940 | 282,326 | 62,455 | 11,419,721 |

Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation and impairment loss, the carrying amount would have been HK$129,883,000 (2015: HK$137,433,000) at the reporting date.

## 19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

*Notes:*

1. All motor vessels are held for use under operating leases.

2. Impairment loss recognized:

   With due considerations of factors affecting the long term intrinsic values of owned dry bulk vessels in the impairment review, the Group's owned vessels' recoverable amounts which were determined based on value in use and were significantly less than their respective carrying amounts at end of 2016. Based on the results of the impairment assessment of owned vessels at the reporting date, the carrying amounts of owned vessels exceeded their respective recoverable amounts of HK$2,578,134,000 which were determined based on value in use. Accordingly, an impairment loss of HK$881,478,000 on owned vessels was recognized at end of 2016. The value in use calculation of owned vessels was appraised by an independent qualified appraisal firm. For the year 2015, the Group recorded an impairment loss of HK$2,535,083,000 on owned vessels with recoverable amounts of HK$4,302,386,000 which were determined based on value in use. Details of the events that led to the recognition of the impairment loss, impairment indicators, key assumptions applied in the value in use calculation, recoverable amounts of impaired assets, and the sensitivity analysis are provided in note 5.

3. Reclassification to assets held for sale:

   The Group took the opportunity to enter into eight memorandums of agreement to dispose two Panamaxes, five Supramaxes and one Handymax at a total consideration of US$65,100,000 (approximately HK$507,780,000) in 2016. These eight vessels had been delivered to the purchasers in the year. The disposal of these eight vessels would enable the Group to enhance its working capital position and to strengthen its liquidity, and optimize the fleet profile through this ongoing management of asset portfolio as well as keeping our strategy to maintain a young and modern fleet. Given the unpredictable and often high earnings volatility in our industry, the disposal of the vessels can further reduce our debt service pressure from both principal repayments and interest payments in an expected rising interest rate environment. For financial reporting purposes, these eight disposed vessels were reclassified to "Assets held for sale" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", with a total impairment loss on assets held for sale (disposed vessels) of HK$354,602,000 was recognized in 2016 upon reclassification to assets held for sale. For the year 2015, no impairment loss on assets held for sale was recognized. Details of impairment loss on assets held for sale are provided in note 14.

## 20. INVESTMENT PROPERTIES

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **192,870** | 141,860 |
| Additions | **6,668** | 3,508 |
| Reclassification from leasehold land and buildings upon disposal of subsidiaries *(Note 19)* | **–** | 8,584 |
| Change in fair value arisen from reclassification from leasehold land and buildings to investment properties upon disposal of subsidiaries | **–** | 30,746 |
| Change in fair value | **53,350** | 8,172 |
| At 31 December | **252,888** | 192,870 |

The Group's investment properties were stated at fair value and comprised of premises and car parks held under operating leases to earn rentals or held for capital appreciation, or both. These premises and car parks are held under long term leases and located in Hong Kong.

At the reporting date, the fair values of the Group's investment properties were determined by Centaline Surveyors Limited, an independent qualified professional valuer, on direct comparison approach on annually basis with reference to comparable transactions available in the relevant locality. In estimating the fair value of investment properties, the highest and best use of the properties is their current use. The fair value measurement of these investment properties was categorized as Level 3 of the three-level fair value hierarchy as defined under HKFRS 13 and there was no transfer among the three levels of the fair value hierarchy during the year.

On 8 December 2016, the Group entered into two provisional sale and purchase agreements with a third party to dispose of two investment properties located in Hong Kong at a total consideration of HK$97,500,000, with carrying amount of HK$96,418,000 at the reporting date. Both transactions were completed in the first quarter of 2017 and no material gain or loss is realized.

## 20. INVESTMENT PROPERTIES *(Continued)*

Details of the Group's investment properties and information about the determination of the fair values of these investment properties, in particular the valuation techniques, significant unobservable inputs and category of the fair value hierarchy are disclosed as below:

| Properties | Fair value hierarchy | Valuation technique | Significant unobservable inputs | Range of unobservable inputs 2016 | 2015 | Relationship of significant unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Premises | Level 3 | Direct comparison method | Market unit sale rate per square feet, after taking into account the age, location and individual factors such as size, view, floor level and quality of building | **HK$17,000 – HK$19,000 per square feet** | HK$12,000 – HK$24,000 per square feet | An increase in percentage of market unit sale rate per square feet would result in an increase in fair value measurement of the premises by the same percentage increase, and vice versa |
| Car parks | Level 3 | Direct comparison method | Market unit sale rate per car park | **HK$3,200,000 – HK$3,500,000 per car park** | HK$1,800,000 – HK$2,000,000 per car park | An increase in percentage of market unit sale rate per car park would result in an increase in fair value measurement of the car park by the same percentage increase, and vice versa |

## 21. GOODWILL

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Carrying amount** | | |
| At 1 January | – | 39,040 |
| Impairment loss recognized | – | (39,040) |
| At 31 December | – | – |

Goodwill arose from deemed acquisition of additional interests in Jinhui Shipping, a subsidiary of the Company, in 2004. For the purpose of impairment testing, goodwill has been allocated to certain ship owning subsidiaries of Jinhui Shipping (that are principally engaged in the business of chartering freight and hire through their owned dry bulk vessels) as a CGU.

## 21. GOODWILL *(Continued)*

Based on the results of the impairment assessment on owned vessels and goodwill at end of 2015, the carrying amounts of relevant owned vessels and the CGU of which goodwill has been allocated exceeded their respective recoverable amounts based on value in use of relevant owned vessels and the CGU and impairment loss was firstly allocated to reduce the carrying amount of goodwill. Accordingly, impairment loss of HK$39,040,000 on goodwill was recognized in the consolidated statement of profit or loss for the year ended 31 December 2015. This impairment loss on goodwill is not reversed in subsequent periods.

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted club debentures, at fair value | **22,150** | 22,200 |
| Unlisted club membership, at fair value | **1,500** | 1,678 |
| Unlisted club membership, at cost | **1,331** | 1,331 |
| | **24,981** | 25,209 |

Unlisted club debentures and unlisted club membership stated at fair value represented investments in club debentures and club membership which their fair values can be determined directly by reference to published price quotations in active markets. At the reporting date, the fair value measurements of these unlisted club debentures and unlisted club membership were categorized as Level 1 of the three-level fair value hierarchy as defined under HKFRS 13 and there was no transfer among the three levels of the fair value hierarchy during the year.

For the unlisted club membership stated at cost, as there is no quoted market price in active market, the range of reasonable fair value estimates can be varied significantly that its fair value cannot be measured reliably.

## 23. INTANGIBLE ASSETS

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Club entrance fee and berth license | | |
| **Cost** | | |
| At 1 January and 31 December | **2,799** | 2,799 |
| **Accumulated amortization** | | |
| At 1 January | **1,524** | 1,360 |
| Charge for the year | **164** | 164 |
| At 31 December | **1,688** | 1,524 |
| **Net book value** | | |
| At 31 December | **1,111** | 1,275 |

## 24. INVENTORIES

Inventories consisted of bunker stock and ship stores on the Group's vessels. At the reporting date, these inventories were carried at cost.

## 25. TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Trade receivables | **21,205** | 22,820 |
| Prepayments, deposits and other receivables | **110,439** | 117,616 |
| | **131,644** | 140,436 |

## 25. TRADE AND OTHER RECEIVABLES *(Continued)*

The carrying amounts of trade and other receivables are considered to be a reasonable approximation of their fair values due to their short term maturities.

Details of the Group's credit policy are set out in note 39(e).

The aging analysis of trade receivables (net of impairment loss) based on payment due dates is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **6,375** | 8,899 |
| Over 3 months but within 6 months | **3,250** | 2,634 |
| Over 6 months but within 12 months | **2,792** | 4,813 |
| Over 12 months | **8,788** | 6,474 |
| | **21,205** | 22,820 |

The aging analysis of trade receivables (net of impairment loss) that are past due at the reporting date but not individually considered to be impaired is included in the following analysis:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **2,211** | 4,012 |
| Past due but not impaired | | |
| Within 3 months past due | **4,164** | 4,887 |
| Over 3 months but within 6 months past due | **3,250** | 2,634 |
| Over 6 months but within 12 months past due | **2,792** | 4,813 |
| Over 12 months past due | **8,788** | 6,474 |
| | **18,994** | 18,808 |
| | **21,205** | 22,820 |

## 25. TRADE AND OTHER RECEIVABLES *(Continued)*

The movement for impairment loss on trade and other receivables is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **119,968** | 123,273 |
| Impairment loss recognized | **–** | 8,342 |
| Reversal of impairment loss | **(389)** | (2,871) |
| Written off as uncollectible | **(487)** | (8,776) |
| At 31 December | **119,092** | 119,968 |

The Group reviews receivables for evidence of impairment on both individual and collective basis. The Group had determined trade and other receivables of HK$119,092,000 (2015: HK$119,968,000) as individually impaired at the reporting date. The individual impaired trade receivables are due from charterers with prolonged delay in hire payments over the agreed credit terms. At the reporting date, the impairment loss on trade receivables and other receivables was HK$99,815,000 (2015: HK$100,691,000) and HK$19,277,000 (2015: HK$19,277,000) respectively.

No impairment allowance in respect of remaining receivables was provided since these charterers had good payment track records with the Group based on their past credit histories and there were no significant changes in credit qualities of these charterers.

## 26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Held for trading* | | |
| Equity securities | | |
| Listed in Hong Kong | **103,357** | 276,571 |
| Listed outside Hong Kong | **47,183** | 65,034 |
| | **150,540** | 341,605 |
| Debt securities | | |
| Listed in Hong Kong | **235,773** | 328,498 |
| Listed outside Hong Kong | **5,555** | 45,571 |
| | **241,328** | 374,069 |
| | **391,868** | 715,674 |

At the reporting date, the fair value measurements of listed equity securities and listed debt securities were determined by reference to their quoted bid prices in active markets and were categorized as Level 1 of the three-level fair value hierarchy as defined under HKFRS 13. There was no transfer among the three levels of the fair value hierarchy during the year.

## 27. TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **8,625** | 12,097 |
| Accrued charges and other payables | **187,468** | 211,291 |
| | **196,093** | 223,388 |

The carrying amounts of trade and other payables are considered to be a reasonable approximation of their fair values.

## 27. TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of trade payables based on payment due dates is as follows:

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 3 months | **1,366** | 3,379 |
| Over 3 months but within 6 months | **715** | 1,096 |
| Over 6 months but within 12 months | **859** | 2,494 |
| Over 12 months | **5,685** | 5,128 |
| | **8,625** | 12,097 |

## 28. SECURED BANK LOANS

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The maturity of secured bank loans is as follows: | | |
| Within one year | **211,339** | 650,064 |
| In the second year | **156,250** | 444,034 |
| In the third to fifth year | **1,267,707** | 1,209,837 |
| Wholly repayable within five years | **1,635,296** | 2,303,935 |
| After the fifth year | **22,620** | 172,432 |
| Total secured bank loans | **1,657,916** | 2,476,367 |
| Less: Amount repayable within one year | **(211,339)** | (650,064) |
| Amount repayable after one year | **1,446,577** | 1,826,303 |

## 28. SECURED BANK LOANS *(Continued)*

At the reporting date, secured bank loans represented vessel mortgage loans that were denominated in United States Dollars and were committed on floating rate basis ranging from 1.22% to 3.71% (2015: 0.88% to 2.62%) per annum. These loans are secured by certain of the Group's assets as disclosed in note 36.

The carrying amount of the secured bank loans is considered to be a reasonable approximation of its fair value.

An intercreditor deed (the "ICD") forming between the Group and four major lenders was executed on 8 December 2016 and effective on 28 December 2016. Pursuant to the terms of the ICD, the Group shall pay 50% of each repayment installment during the forbearance period until 31 December 2018 (with early restructuring exit option) and the remaining 50% of each such installment be deferred and repaid after the end of the forbearance period in 2019. Any asset coverage ratio covenant and financial covenant as set out in the relevant loan facilities are waived and suspended during the forbearance period. No additional securities would be provided under the ICD but cross-collateralization over the mortgaged vessels among each lender was agreed. The Group shall pay an increased margin of 0.75% per annum during the forbearance period and 0.5% per annum after the forbearance period as long as amount is outstanding under the relevant loan facilities.

## 29. SHARE CAPITAL

The Company's share capital is as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Number of ordinary shares** | **Amount** | Number of ordinary shares | Amount |
| | | ***HK$'000*** | | *HK$'000* |
| **Issued and fully paid:** | | | | |
| At 1 January and 31 December | **530,289,480** | **381,639** | 530,289,480 | 381,639 |

## 30. RESERVES

Details of movements in reserves of the Group are set out in the "Consolidated Statement of Changes in Equity" on page 58.

**Employee share-based compensation reserve**

Employee share-based compensation reserve represents the contribution from the share options granted by the Company to Directors and employees of the Group. During the year, all the share options have been expired and the amount previously recognized in employee share-based compensation reserve has been transferred to retained profits.

**Reserve for available-for-sale financial assets**

Reserve for available-for-sale financial assets represents the changes in fair value of available-for-sale financial assets.

## 31. EMPLOYEE SHARE-BASED COMPENSATION

Under the Share Option Scheme, the Board was authorized to grant share options to acquire the shares of the Company to the Directors, officers and employees of the Group and other person(s) selected by the Board who have contributed or will contribute to the Group. The option is unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company.

Details of share options under the Share Option Scheme granted to Directors and movement in the number of outstanding share options in 2016 were as follows:

| | Date of grant | Number of options granted | Value of options at grant date *HK$'000* | Exercise price per share *HK$* | Exercisable period | Number of outstanding options as at 1 January 2016 | Number of options lapsed during the year | Number of outstanding options as at 31 December 2016 |
|---|---|---|---|---|---|---|---|---|
| Non-performance based options | 29 June 2006 | 9,552,000 | 3,435 | 1.57 | 29 June 2006 to 28 June 2016 | 9,552,000 | (9,552,000) | – |

## 31. EMPLOYEE SHARE-BASED COMPENSATION *(Continued)*

*Notes:*

1. During the year, 9,552,000 share options were lapsed. Other than that, no share option was granted, exercised, cancelled or lapsed during the year.

2. The Share Option Scheme was valid and effective for a period of ten years commencing on 18 November 2004 up to 17 November 2014. All outstanding options granted under the Share Option Scheme had been lapsed on 28 June 2016.

3. The exercise price of HK$1.57 per share was determined by the higher of (i) the closing price per share of the Company on the date of grant of options on 29 June 2006; and (ii) the average closing price per share of the Company for the five business days immediately preceding the date of grant of options on 29 June 2006. As at the date of grant of options on 29 June 2006, the closing price per share of the Company was HK$1.57.

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation including discontinued operation | **(1,472,496)** | (3,021,668) |
| Adjustments for: | | |
| Depreciation and amortization | **274,206** | 426,348 |
| Interest income | **(16,542)** | (32,751) |
| Interest expenses | **39,902** | 38,147 |
| Impairment loss on owned vessels | **881,478** | 2,535,083 |
| Impairment loss on assets held for sale | **354,602** | – |
| Impairment loss on goodwill | **–** | 39,040 |
| Impairment loss (Reversal of impairment loss) on trade and other receivables | **(389)** | 5,471 |
| Dividend income | **(6,672)** | (18,283) |
| Loss on write-off of vessel under construction | **–** | 22,698 |
| Net gain on disposal / write-off of property, plant and equipment | **(684)** | (150) |
| Change in fair value of investment properties | **(53,350)** | (8,172) |
| Gain on disposal of subsidiaries | **–** | (23) |
| Bad debts written off | **151** | 282 |
| *Changes in working capital:* | | |
| Inventories | **13,114** | 13,026 |
| Trade and other receivables | **6,512** | 17,461 |
| Financial assets at fair value through profit or loss | **324,281** | 334,636 |
| Trade and other payables | **(27,219)** | 3,385 |
| **Cash generated from operations** | **316,894** | 354,530 |

## 33. DEFERRED TAXATION

At the reporting date, deferred tax assets have not been recognized in respect of the followings:

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Deductible temporary differences | 1,458 | – |
| Tax losses | 2,212,481 | 2,145,482 |
| | 2,213,939 | 2,145,482 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. Both deductible temporary differences and tax losses do not expire under current tax legislation.

## 34. FUTURE OPERATING LEASE ARRANGEMENTS

At the reporting date, the Group had future minimum lease income receivables under non-cancellable operating leases as follows:

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year: | | |
| Premises | 1,127 | 5,196 |
| Owned vessels | 3,042 | 541 |
| | 4,169 | 5,737 |
| In the second to fifth year: | | |
| Premises | – | 1,536 |
| | 4,169 | 7,273 |

## 35. CAPITAL EXPENDITURE COMMITMENTS

At the reporting date, there was no capital expenditure commitments contracted by the Group but not provided for (2015: nil).

## 36. PLEDGE OF ASSETS

At the reporting date, the Group had certain credit facilities which were secured by the followings:

(a) Legal charges on the Group's property, plant and equipment with an aggregate net book value of HK$2,608,529,000 (2015: HK$4,565,421,000) and investment properties with an aggregate carrying amount of HK$106,975,000 (2015: HK$79,630,000);

(b) Deposits totalling HK$50,663,000 (2015: HK$80,937,000) of the Group placed with banks; and

(c) Assignment of twenty eight (2015: thirty six) ship owning subsidiaries' chartering income in favour of banks.

In addition, shares of twenty two (2015: thirty) ship owning subsidiaries were pledged to banks for vessel mortgage loans.

## 37. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following related party transactions:

Compensation of key management personnel as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **51,967** | 59,257 |
| Contributions to retirement benefits schemes | **2,281** | 2,919 |
| | **54,248** | 62,176 |

## 38. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, the Group entered into four memorandums of agreement on 24 February 2017 to dispose of four Supramaxes with expected delivery dates between 1 March 2017 and 15 April 2017. The four agreements are not inter-conditional. The total consideration for four vessels is US$48 million (approximately HK$374 million). The vessels will be reclassified to "Assets held for sale" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" in the first quarter of 2017. The Group expects that a further impairment loss in relation to these four vessels of approximately HK$53 million would be recognized in the first quarter of 2017 upon reclassification to assets held for sale and no material book loss will be recorded any further upon the completion of the disposal of these four vessels.

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES

The Group is exposed to financial risks through its use of financial instruments which arise from its business activities. The financial risks include market risk (mainly comprise of interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk. The management manages and monitors the financial risk exposures to ensure appropriate measures are implemented on a timely and effective manner. These policies have been in place for years and are considered to be effective.

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES *(Continued)*

### (a) Categories of financial instruments

At the reporting date, the carrying amounts of financial instruments presented in the consolidated statement of financial position related to the following categories of financial assets and financial liabilities:

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Financial assets** | | |
| *Available-for-sale financial assets* | | |
| Unlisted club debentures, at fair value | 22,150 | 22,200 |
| Unlisted club membership, at fair value | 1,500 | 1,678 |
| Unlisted club membership, at cost | 1,331 | 1,331 |
| | 24,981 | 25,209 |
| *Financial assets at fair value through profit or loss* | | |
| Equity securities | 150,540 | 341,605 |
| Debt securities | 241,328 | 374,069 |
| | 391,868 | 715,674 |
| *Loans and receivables* | | |
| Trade and other receivables | 115,991 | 120,856 |
| Pledged deposits | 50,663 | 80,937 |
| Bank balances and cash | 240,872 | 277,216 |
| | 407,526 | 479,009 |
| | 824,375 | 1,219,892 |
| **Financial liabilities** | | |
| *Trade and other payables* | 176,537 | 213,428 |
| *Borrowings* | | |
| Secured bank loans | 1,657,916 | 2,476,367 |
| | 1,834,453 | 2,689,795 |

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES *(Continued)*

**(b) Interest rate risk**

**Exposures to interest rate risk and the Group's risk management policies**

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk arises primarily from bank borrowings that were committed on floating rate basis. The Group receives fixed interest income from investment in debt securities.

The Group manages interest rate risk by monitoring its interest rate profile as set out in note 28.

**Sensitivity analysis***

Based on the exposures to bank borrowings of HK$1,657,916,000 (2015: HK$2,476,367,000) at the reporting date, it was estimated that an increase of 75 (2015: 110) basis points in interest rate, with all other variables remaining constant, the Group's net loss would increase by approximately HK$12,434,000 (2015: HK$27,240,000).

The sensitivity analysis above has been determined as if the change in interest rate had occurred at the reporting date. The basis of 75 (2015: 110) points increase is considered to be reasonably possible change based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next reporting date.

**(c) Foreign currency risk**

**Exposures to foreign currency risk and the Group's risk management policies**

Foreign currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's transactions, assets and liabilities are mainly denominated in Hong Kong Dollars and United States Dollars which is linked to Hong Kong Dollars at exchange rate of around US$1.00 to HK$7.80. The Group believes that there will be no significant fluctuation in the exchange rates between Hong Kong Dollars and United States Dollars.

At the reporting date, the Group was exposed to foreign currency risk primarily through holding certain bank deposits and investment in equity securities mainly denominated in Singapore Dollars amounting to SGD331,000 and SGD8,649,000, approximately HK$1,774,000 and HK$46,294,000 (2015: bank deposits and investment in debt securities denominated in Renminbi amounting to RMB2,048,000 and RMB34,074,000, approximately HK$2,418,000 and HK$40,212,000) respectively.

* *The sensitivity analysis disclosed above represents the risks inherent to the Group's financial instruments as of each reporting date. The result of the sensitivity analysis may differ from time to time according to the then prevailing market conditions.*

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES *(Continued)*

**(c) Foreign currency risk *(Continued)***

**Sensitivity analysis***

At the reporting date, based on the total exposures to the bank deposits and equity securities mainly denominated in Singapore Dollars of SGD8,980,000, approximately HK$48,068,000 (2015: bank deposits and debt securities denominated in Renminbi of RMB36,122,000, approximately HK$42,630,000), it was estimated that a depreciation of 5% in exchange rate of Singapore Dollars / Renminbi against Hong Kong Dollars would result in an increase to the Group's net loss by approximately HK$2,403,000 (2015: HK$2,030,000) with all other variables remain constant. The sensitivity analysis had been determined based on the assumed exchange rate movement of Singapore Dollars / Renminbi against Hong Kong Dollars taking place at the beginning of the year and held constant throughout the year.

**(d) Price risk**

**Exposures to price risk and the Group's risk management policies**

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will decline because of adverse market price movements of the financial instrument. The Group is exposed to price risk primarily through its investments in listed equity securities and debt securities classified as financial assets at fair value through profit or loss.

The Group's portfolio of financial instruments that exposed to price risk at the reporting date is set out in note 26.

**Sensitivity analysis***

Based on the portfolio of listed equity securities held by the Group at the reporting date, if the quoted prices of the listed equity securities had been decreased by 10% (2015: 10%), the Group's net loss would increase by approximately HK$15,054,000 (2015: HK$34,160,000).

Based on the portfolio of listed debt securities held by the Group at the reporting date, if the quoted prices of the listed debt securities had been decreased by 10% (2015: 10%), the Group's net loss would increase by approximately HK$24,133,000 (2015: HK$37,407,000).

* *The sensitivity analysis disclosed above represents the risks inherent to the Group's financial instruments as of each reporting date. The result of the sensitivity analysis may differ from time to time according to the then prevailing market conditions.*

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES *(Continued)*

### (e) Credit risk

**Exposures to credit risk and the Group's risk management policies**

Credit risk relates to the risk that the counterparty to a financial instrument would fail to discharge its contractual obligations under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposures to credit risk mainly arises from granting credit to charterers in the ordinary course of its operations, investment in debt securities and other financial instruments, and placing deposits with financial institutions.

Management has a credit policy in place for approving the credit limits and the exposures to credit risk are monitored such that any outstanding trade receivables are reviewed and followed up on an ongoing basis. Credit evaluations including assessing the customer's creditworthiness and financial standing are performed on customers requiring a credit over certain amount.

The credit terms given to charterers vary from 15 to 60 days according to the types of vessels' employment.

The Group has no significant concentration of credit risk in respect of trade receivables, with exposure spread over a number of charterers. At the reporting date, the Group did not hold any collateral from charterers.

The Group is exposed to credit risk associated to investment in debt securities. By diversifying the investment portfolio across various debt securities offered by sound credit rating counterparties, the Group does not expect to incur material credit losses on managing these financial instruments.

Bank deposits are only placed with creditworthy financial institutions. The management does not expect any financial institutions fail to meet their obligations.

## 39. FINANCIAL RISK MANAGEMENT AND POLICIES *(Continued)*

### (f) Liquidity risk

**Exposures to liquidity risk and the Group's risk management policies**

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings. The management regularly monitors the Group's current and expected liquidity requirements and its compliance with lending covenants, to ensure it maintains sufficient reserves of cash and bank balances, readily realizable marketable equity and debt securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements.

The analysis below set out the remaining contractual maturity based on undiscounted cash flow of the Group's financial liabilities at the reporting date.

| | Within one year *HK$'000* | In the second year *HK$'000* | In the third to fifth year *HK$'000* | After the fifth year *HK$'000* | Total undiscounted amount *HK$'000* | Carrying amount *HK$'000* |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Trade and other payables | **176,537** | **–** | **–** | **–** | **176,537** | **176,537** |
| Secured bank loans | **247,401** | **188,572** | **1,294,715** | **23,025** | **1,753,713** | **1,657,916** |
| | **423,938** | **188,572** | **1,294,715** | **23,025** | **1,930,250** | **1,834,453** |
| 2015 | | | | | | |
| Trade and other payables | 213,428 | – | – | – | 213,428 | 213,428 |
| Secured bank loans | 682,965 | 470,431 | 1,254,396 | 175,183 | 2,582,975 | 2,476,367 |
| | 896,393 | 470,431 | 1,254,396 | 175,183 | 2,796,403 | 2,689,795 |

## 40. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(a) to ensure the Group's ability to continue as a going concern;

(b) to provide adequate returns for shareholders;

(c) to maintain an optimal capital structure to reduce the cost of capital; and

(d) to support the Group's stability and sustainable growth.

The Group's capital management strategies are to rely on internal resources and interest-bearing borrowings to finance the capital expenditures. The management may make adjustments to its capital structure in the light of changes in economic conditions, recent market values of the Group's assets as well as the risk characteristics of the underlying assets through adjusting the amount of dividends paid to shareholders, issuing new shares or selling assets to reduce debts.

The Group monitors capital structure on the basis of the gearing ratio. This ratio is calculated as net debts (total interest-bearing debts net of equity and debt securities, bank balances and cash) over total equity. The gearing ratio of the Group at the reporting date is calculated as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured bank loans repayable within one year | **211,339** | 650,064 |
| Secured bank loans repayable after one year | **1,446,577** | 1,826,303 |
| Total secured bank loans | **1,657,916** | 2,476,367 |
| Less: Equity and debt securities | **(391,868)** | (715,674) |
| Less: Bank balances and cash | **(240,872)** | (277,216) |
| Net debts | **1,025,176** | 1,483,477 |
| Total equity | **1,978,838** | 3,451,562 |
| Gearing ratio | **52%** | 43% |

## 41. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

### (a) Statement of financial position of the Company

| | 2016 | 2015 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | |
| **Non-current assets** | | |
| Available-for-sale financial assets | **15,500** | 15,500 |
| Investments in subsidiaries | **478,273** | 478,273 |
| | **493,773** | 493,773 |
| **Current assets** | | |
| Other receivables | **224** | 186 |
| Financial assets at fair value through profit or loss | **31,757** | 36,475 |
| Amount due from subsidiaries | **197,785** | 194,135 |
| Bank balances and cash | **7,217** | 9,791 |
| | **236,983** | 240,587 |
| **Current liabilities** | | |
| Other payables | **4,079** | 483 |
| **Net current assets** | **232,904** | 240,104 |
| **Net assets** | **726,677** | 733,877 |
| **EQUITY** | | |
| **Capital and reserves** | | |
| Issued capital | **381,639** | 381,639 |
| Reserves *(Note)* | **345,038** | 352,238 |
| **Total equity** | **726,677** | 733,877 |

*Note:* At the reporting date, reserves of the Company available for distribution to shareholders amounted to HK$302,318,000 (2015: HK$265,858,000).

Approved and authorized for issue by the Board of Directors on 20 March 2017

**Ng Siu Fai**
*Chairman*

**Ng Kam Wah Thomas**
*Managing Director*

## 41. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE COMPANY *(Continued)*

### (b) Statement of changes in equity of the Company

| | Issued capital<br>*HK$'000* | Employee share-based compensation reserve<br>*HK$'000* | Reserve for available-for-sale financial assets<br>*HK$'000* | Retained profits<br>*HK$'000* | Total equity<br>*HK$'000* |
|---|---|---|---|---|---|
| At 1 January 2015 | 381,639 | 43,660 | 7,500 | 322,099 | 754,898 |
| **Comprehensive loss** | | | | | |
| Loss for the year | – | – | – | (24,021) | (24,021) |
| **Other comprehensive income** | | | | | |
| Change in fair value of available-for-sale financial assets | – | – | 3,000 | – | 3,000 |
| **Total comprehensive loss for the year** | – | – | 3,000 | (24,021) | (21,021) |
| At 31 December 2015 | 381,639 | 43,660 | 10,500 | 298,078 | 733,877 |
| At 1 January 2016 | 381,639 | 43,660 | 10,500 | 298,078 | 733,877 |
| **Comprehensive loss** | | | | | |
| Loss for the year | – | – | – | (7,200) | (7,200) |
| **Total comprehensive loss for the year** | – | – | – | (7,200) | (7,200) |
| **Transaction with owners** | | | | | |
| Lapse of employee share options | – | (43,660) | – | 43,660 | – |
| **At 31 December 2016** | **381,639** | **–** | **10,500** | **334,538** | **726,677** |

## 42. PRINCIPAL SUBSIDIARIES

The following table lists out the information relating to Jinhui Shipping and its subsidiaries (collectively, referred to as "Jinhui Shipping Group"), the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarized financial information presented below represents the amounts before any inter-company transactions and balances elimination:

| | **Jinhui Shipping Group** | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| NCI percentage | **45.23%** | 45.23% |
| Non-current assets | **2,823,483** | 4,742,104 |
| Current assets | **766,545** | 1,181,248 |
| Non-current liabilities | **(1,446,580)** | (1,826,300) |
| Current liabilities | **(393,962)** | (872,477) |
| Net assets | **1,749,486** | 3,224,575 |
| Carrying amount of NCI | **804,952** | 1,472,134 |
| Revenue | **467,649** | 673,163 |
| Net loss for the year | **(1,474,910)** | (2,954,195) |
| Total comprehensive loss for the year | **(1,475,089)** | (2,954,195) |
| Net loss for the year attributable to NCI | **(667,102)** | (1,336,178) |
| Total comprehensive loss for the year attributable to NCI | **(667,182)** | (1,336,178) |
| Net cash from operating activities | **270,418** | 333,138 |
| Net cash from investing activities | **474,357** | 62,603 |
| Net cash used in financing activities | **(788,174)** | (567,637) |

## 42. PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

| Name | Issued and paid-up capital / registered capital | Attributable equity interest at 31/12/2016 | Attributable equity interest at 31/12/2015 | Principal activities | Place of operation |
|---|---|---|---|---|---|
| **Incorporated in Bermuda** | | | | | |
| Jinhui MetCoke Limited | 12,000 ordinary shares of US$1 each | 54.77% | 54.77% | Investment holding | Worldwide |
| # Jinhui Shipping and Transportation Limited | 84,045,341 ordinary shares of US$0.05 each | 54.77% | 54.77% | Investment holding | Worldwide |
| **Incorporated in the British Virgin Islands** | | | | | |
| Advance Rich Limited | 1 share of US$1 each | 54.77% | 54.77% | Investment | Worldwide |
| Jin Hui Shipping Inc. | 50,000 shares of US$1 each | 54.77% | 54.77% | Investment holding | Worldwide |
| Jinhui Investments Limited | 1 share of US$1 each | 54.77% | 54.77% | Investment holding | Worldwide |
| # Pantow Profits Limited | 60,000 shares of US$1 each | 100% | 100% | Investment holding | Worldwide |
| **Incorporated in Hong Kong** | | | | | |
| Carpa Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Property investment | Hong Kong |
| Exalten Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Property investment | Hong Kong |

## 42. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Issued and paid-up capital / registered capital | Attributable equity interest at 31/12/2016 | Attributable equity interest at 31/12/2015 | Principal activities | Place of operation |
|---|---|---|---|---|---|
| **Incorporated in Hong Kong** ***(Continued)*** | | | | | |
| Fair Fait International Limited | HK$2 divided into 2 ordinary shares | 54.77% | 54.77% | Property investment | Hong Kong |
| Fair Group International Limited | HK$10,000 divided into 10,000 ordinary shares | 100% | 100% | Property investment | Hong Kong |
| First Lion International Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Property investment | Hong Kong |
| Goldbeam International Limited | HK$5,000,000 divided into 5,000,000 ordinary shares | 54.77% | 54.77% | Ship management services, shipping agent and investment | Hong Kong |
| # Jinhui Investments (China) Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Investment holding | Hong Kong |
| Keenfair Investment Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Investment trading | Hong Kong |
| Leadford Industries Limited | HK$2 divided into 2 ordinary shares | 54.77% | 54.77% | Property investment | Hong Kong |
| Linkford International Limited | HK$2 divided into 2 ordinary shares | 100% | 100% | Property investment | Hong Kong |
| Monocosmic Limited | HK$10,000 divided into 10,000 ordinary shares | 54.77% | 54.77% | Property investment | Hong Kong |
| Ringo Star Company Limited | HK$2 divided into 2 ordinary shares | 54.77% | 54.77% | Property investment | Hong Kong |

## 42. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Issued and paid-up capital / registered capital | Attributable equity interest at 31/12/2016 | Attributable equity interest at 31/12/2015 | Principal activities | Place of operation |
|---|---|---|---|---|---|
| **Incorporated in the Republic of Liberia** | | | | | |
| Galsworthy Limited | 1 registered share of US$1 each | 54.77% | 54.77% | Ship chartering | Worldwide |
| Goldbeam Shipping Inc. | 100 registered shares of US$1 each | 54.77% | 54.77% | Ship chartering | Worldwide |
| Paxton Enterprises Limited | 500 registered shares of US$1 each | 54.77% | 54.77% | Ship chartering | Worldwide |
| Sompol Trading Limited | 10 registered shares of US$1 each | 54.77% | 54.77% | Ship chartering | Worldwide |
| Wonder Enterprises Ltd. | 500 registered shares of US$1 each | 54.77% | 54.77% | Ship chartering | Worldwide |
| **Incorporated in the Republic of Panama** | | | | | |
| Huafeng Shipping Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinao Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jincheng Maritime Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinfeng Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jingang Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |

## 42. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Issued and paid-up capital / registered capital | Attributable equity interest at 31/12/2016 | Attributable equity interest at 31/12/2015 | Principal activities | Place of operation |
|---|---|---|---|---|---|
| **Incorporated in the Republic of Panama *(Continued)*** | | | | | |
| Jinheng Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinhong Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinji Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinjun Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinlang Marine Inc. | 2 registered shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinli Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinmao Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinmei Marine Inc. | 2 registered shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinping Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinquan Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinsheng Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinshun Shipping Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |

## 42. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Issued and paid-up capital / registered capital | Attributable equity interest at 31/12/2016 | Attributable equity interest at 31/12/2015 | Principal activities | Place of operation |
|---|---|---|---|---|---|
| **Incorporated in the Republic of Panama *(Continued)*** | | | | | |
| Jinsui Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jintong Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinwan Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinxiang Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinxing Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinyao Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinyi Shipping Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinyu Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinyuan Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinyue Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |
| Jinzhou Marine Inc. | 2 common shares of US$1 each | 54.77% | 54.77% | Ship owning | Worldwide |

\# *These are direct subsidiaries of the Company. All other companies are indirect subsidiaries.*

# Glossary

This glossary contains the abbreviations and main terms used in the 2016 annual report.

| Abbreviations / Main terms | Meanings in the annual report |
|---|---|
| Board | Board of Directors; |
| CGU | Cash generating unit; |
| Chairman | Chairman of the Board; |
| China / PRC | The People's Republic of China; |
| CG Code | Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules; |
| Company / Jinhui Holdings | Jinhui Holdings Company Limited, a company incorporated in Hong Kong, whose shares are listed on the Hong Kong Stock Exchange; |
| Company Code | A set of code adopted by the Company, which sets out the corporate standards and practices used by the Group; |
| Director(s) | Director(s) of the Company; |
| DWT | Deadweight tonnage; |
| Fairline | Fairline Consultants Limited, a company incorporated in the British Virgin Islands with limited liability, which is the legal and beneficial owner of 342,209,280 shares of the Company (representing approximately 64.53% of the total issued shares of the Company) and 500,000 shares of Jinhui Shipping (representing approximately 0.59% of the total issued shares of Jinhui Shipping) as at 31 December 2016; |
| Group | Company and its subsidiaries; |
| Handymax | A dry cargo vessel of deadweight approximately 45,000 metric tons; |
| Handysize | A dry cargo vessel of deadweight below 40,000 metric tons; |
| HKAS | Hong Kong Accounting Standards; |

# Glossary

| Abbreviations / Main terms | Meanings in the annual report |
|---|---|
| HKFRS | Hong Kong Financial Reporting Standards; |
| HKICPA | Hong Kong Institute of Certified Public Accountants; |
| Hong Kong | The Hong Kong Special Administrative Region of the PRC; |
| IMO | The International Maritime Organization; |
| ISM Code | The International Safety Management Code; |
| ISPS Code | The International Ship and Port Facility Security Code; |
| Jinhui Shipping | Jinhui Shipping and Transportation Limited, a company incorporated in Bermuda and an approximately 54.77% owned subsidiary of the Company as at 31 December 2016, whose shares are listed on the Oslo Stock Exchange; |
| Listing Rules | The Rules Governing the Listing of Securities on the Stock Exchange; |
| MARPOL | The International Convention for the Prevention of Pollution from Ships; |
| Panamax | Vessel of deadweight approximately 70,000 metric tons, designed to be just small enough to transit the Panama Canal; |
| Post-Panamax | Vessel of deadweight approximately 90,000 metric tons to 100,000 metric tons; |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| Shareholder(s) | Shareholder(s) of the Company; |
| Share Option Scheme | A share option scheme adopted by the Company pursuant to a resolution passed on 18 November 2004; |
| STCW Convention | The International Convention on Standards of Training, Certification and Watchkeeping for Seafarers; |
| Stock Exchange | The Stock Exchange of Hong Kong Limited; |
| Supramax(es) | Dry cargo vessel(s) of deadweight approximately 50,000 metric tons; |

# Glossary

| Abbreviations / Main terms | Meanings in the annual report |
|---|---|
| HK$ | Hong Kong Dollars, the lawful currency of Hong Kong; |
| RMB | Renminbi, the lawful currency of the PRC; |
| SGD | Singapore Dollars, the lawful currency of Singapore; and |
| US$ | United States Dollars, the lawful currency of the United States of America. |