JINHUI

# JINHUI HOLDINGS COMPANY LIMITED

# 金輝集團有限公司

*(Incorporated in Hong Kong with limited liability)*

Stock Code : 137

# INTERIM RESULTS

# FOR THE SIX MONTHS ENDED 30 JUNE 2012

# HIGHLIGHTS

## FOR THE FIRST HALF OF 2012

- Revenue for the period: HK$1,067 million
- Net profit attributable to shareholders for the period: HK$68 million
- Basic earnings per share: HK$0.128
- Gearing ratio as at 30 June 2012: 43%

# CHAIRMAN'S STATEMENT

The Board is pleased to present the interim results of **Jinhui Holdings Company Limited** (the "Company") and its subsidiaries (the "Group") for the six months ended 30 June 2012.

## INTERIM RESULTS

The Group's revenue for the first half of 2012 was HK$1,066,674,000, representing a decline of 31% as compared to HK$1,544,617,000 for the first half of 2011. The net profit attributable to shareholders of the Company for the first half of 2012 was HK$67,992,000 whereas HK$234,328,000 was reported in the same period in 2011.

Basic earnings per share was HK$0.128 for the six months ended 30 June 2012 as compared to basic earnings per share of HK$0.442 for the last corresponding period in 2011.

## INTERIM DIVIDEND

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2012 (2011: nil).

## BUSINESS REVIEW

**Chartering freight and hire.** 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.

Dry bulk shipping market was under severe challenges in the first half of 2012. China and India, the main driving forces for global seaborne trade, showed signs of slowing down in economic growth, reflecting economic distress in western countries has cascaded into the emerging countries. The continual delivery of new dry bulk tonnages rapidly outpaced market demand for dry bulk carriers, and caused market freight rates to drop rigorously. The market sentiment was further weighed down by the worsening Eurozone financial crisis when Spain recently revealed its banking crisis that immediately triggered a chain reaction on the financial markets across peripheral Europe. Given the weak macroeconomic market environment, the Baltic Dry Index opened at 1,738 points at the beginning of 2012 and collapsed to its record low at 647 points on 3 February 2012 and closed at 1,004 points by end of June 2012.

The Group's operating results from chartering freight and hire for the first half of 2012 was constrained by the depressed market charter rates coupled with rising vessels operating expenses. Revenue from chartering freight and hire for the first half of year dropped from HK$1,325,901,000 in 2011 to HK$930,286,000 in 2012. Segment profit from chartering freight and hire for the first half of 2012 declined to HK$149,446,000 as compared to HK$423,936,000 for the same corresponding period in 2011. The decline in revenue and segment profit from chartering freight and hire was mainly due to the expiration of some high earning charter contracts in late 2011 and early 2012, and lower charter rates upon redeployment of our fleet in prevailing weak market upon contract renewal in particular to larger size fleet. In addition, revenue contributed from expanded owned Supramax fleet was offset by the decrease in revenue earned from chartered-in Capesize fleet, reflected in the sharp fall in the average daily time charter equivalent rates ("TCE") of the Group's fleet.

The TCE of the Group's fleet were as follows:

| | **2012 1st half** | 2011 1st half | 2011 |
|---|---|---|---|
| | ***US$*** | *US$* | *US$* |
| Capesize Fleet | **11,253** | 61,294 | 35,532 |
| Post-Panamax / Panamax Fleet | **15,261** | 20,867 | 19,660 |
| Supramax / Handymax / Handysize Fleet | **16,531** | 23,004 | 21,224 |
| In average | **16,128** | 24,722 | 21,785 |

Two chartered-in Capesizes were chartered-out at operating loss in June 2011 with lease period expiring in April 2012 after the previous high earning chartered-out contracts were terminated in early 2011. The Group is exposed to the low freight rate environment mainly due to an oversupply of tonnages, and therefore had to enter into some loss-making chartered-out contracts in early 2012 as part of our fleet is due for contract renewal in the prevailing market conditions. Hence, TCE of Capesize fleet dropped from US$61,294 for the first half of 2011 to US$11,253 for the first half of 2012.

Despite provision for loss on charter hire had been made for these two chartered-out contracts in 2011, when approaching expiration of these chartered-out contracts, the Group committed the two Capesizes to new employment contracts in March and April 2012 at operating loss due to the prevailing unfavourable freight environment. Accordingly, the Group recognized provision for loss on charter hire of HK$174,662,000 in the first half of 2012 for the abovementioned contracts which covered minimum lease periods of eight months until December 2012 and eighteen months until October 2013 respectively. The net provision for loss on charter hire of HK$91,117,000 for the period was included in shipping related expenses in the condensed consolidated statement of comprehensive income and the details were set out in note 4 on pages 21 and 22.

The Group recognized settlement income of HK$123,337,000 in relation to the full settlement income from a charterer for early termination of time-charter contract, and the partial settlement of claim for damages and losses against Korea Line Corporation ("KLC") by receiving shares of KLC. The remaining settlement income from KLC will be settled by cash payments spanning through a period between 2012 and 2021. The Group would recognize the remaining settlement income from KLC when the realization of such income becomes virtually certain and cash or assets that are readily convertible to cash have been received.

Shipping related expenses for the first half of 2012 dropped to HK$651,266,000, as comparing to HK$718,650,000 for the last corresponding period in 2011. The decrease was primarily due to the expiration of a chartered-in contract of a Panamax in mid-2011 that led to the reduction in hire payments and the decrease in provision for loss on charter hire being recognized in the period.

Due to the expansion of owned fleet and relatively higher contract price of recently delivered owned vessels, the Group's depreciation and amortization for chartering freight and hire for the first half of 2012 increased by 10% to HK$208,199,000 from HK$189,485,000 for the first half of 2011. As at 30 June 2012, the Group had thirty seven owned vessels as compared to thirty four owned vessels as at 30 June 2011.

Finance costs for chartering freight and hire for the first half of 2012 rose 32% to HK$33,794,000, as compared to HK$25,653,000 for the last corresponding period in 2011. The increase was attributable to the increase in the number of owned vessels of the Group, as well as the increase in loan principal and higher loan interest margin being agreed under loan facilities for the recently delivered owned vessels.

**Trading.** The Group operates its trading of chemical and industrial raw materials through Yee Lee Technology Company Limited, a 75% owned subsidiary of the Company.

The Group's segment revenue from trading business dropped 38% to HK$136,388,000 for the first half of 2012 as comparing to HK$218,716,000 for the first half of 2011. Given the general unfavourable market conditions and the fall in commodity prices as a result of slackening demand for industrial commodities, the Group's operating results from trading business was inevitably impacted by the reduced profit margin and reported segment loss of HK$632,000 from trading business for the first half of 2012, whereas segment profit of HK$5,127,000 was reported in last corresponding period in 2011.

**Other financial information.** The significant increase in unallocated corporate expenses was mainly attributable to the recognition of net loss on financial assets at fair value through profit or loss of HK$25,719,000 for the first half of 2012 as comparing to HK$2,951,000 for the first half of 2011. The net loss was mainly attributable to the recognition of fair value loss on investment portfolio, predominantly in equity securities listed in Hong Kong, of HK$28,644,000 for the first half of 2012 as global stock markets slipped on continued concerns over deteriorating European sovereign debt crisis with the focus on Greece and Spain in particular. For the same corresponding period in 2011, fair value loss on investment portfolio was HK$14,209,000.

## FINANCIAL REVIEW

**Liquidity, financial resources and capital structure.** As at 30 June 2012, the total of the Group's equity and debt securities, bank balances and cash decreased to HK$1,791,043,000 (31/12/2011: HK$2,110,913,000) and bank borrowings increased to HK$4,720,718,000 (31/12/2011: HK$4,539,620,000). 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 43% as at 30 June 2012 (31/12/2011: 37%).

Secured bank loans drawn in the period comprised of vessel mortgage loans of HK$274,170,000 drawn upon delivery of two newbuildings and demand loans denominated in Japanese Yen of approximately HK$190,280,000. Vessel mortgage loans and trust receipt loans were denominated in U.S. Dollars and were committed on floating rate basis. Demand loans were denominated in Japanese Yen and were committed on fixed rate basis. As the exchange rates of Japanese Yen against most currencies spiked upwards recently, the Group decided to take advantage of such opportunities by borrowing relative short term Japanese Yen demand loans at very low funding costs with maturity varying from 3 to 8 days to further enhance the Group's working capital requirements. Duration of such borrowing is very short for the purpose of swiftly managing the currency exposures. As at 30 June 2012, the outstanding demand loans were JPY1,768,172,000 (approximately HK$171,650,000) (31/12/2011: nil) which were collateralized by pledged deposit of HK$203,893,000 (31/12/2011: nil).

The Group's bank borrowings increased to HK$4,720,718,000 as at 30 June 2012 (31/12/2011: HK$4,539,620,000), of which 15%, 11%, 36% and 38% are repayable respectively within one year, one to two years, two to five years and over five years. 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.

**Pledge of assets.** As at 30 June 2012, the Group’s property, plant and equipment and investment properties with an aggregate net book value of HK$9,059,483,000 (31/12/2011: HK$8,584,672,000), financial assets at fair value through profit or loss of HK$76,269,000 (31/12/2011: HK$50,895,000) and deposits of HK$279,711,000 (31/12/2011: HK$61,582,000) placed with banks and other financial institution were pledged together with the assignment of thirty seven (31/12/2011: thirty five) ship owning subsidiaries’ chartering income to secure credit facilities utilized by the Group. In addition, shares of thirty one (31/12/2011: twenty nine) ship owning subsidiaries were pledged to banks for vessel mortgage loans.

**Capital expenditures and commitments.** During the six months ended 30 June 2012, capital expenditure on additions of the owned vessels and vessels under construction was HK$597,109,000 (30/6/2011: HK$1,038,235,000), on other property, plant and equipment was HK$4,309,000 (30/6/2011: HK$8,227,000), and on investment properties was HK$31,318,000 (30/6/2011: nil).

As at 30 June 2012, the total amount of capital expenditure commitments contracted by the Group but not provided for, net of deposits paid, was approximately HK$646,950,000 (31/12/2011: HK$1,227,135,000), representing the Group's outstanding capital expenditure commitments to acquire three (31/12/2011: five) newbuildings at total contract price of US$17,500,000 and JPY9,810,500,000 (31/12/2011: US$35,000,000 and JPY16,221,000,000).

The above capital expenditure commitments included a Supramax newbuilding at original cost of US$17,500,000 and JPY1,910,500,000, which was contracted to be disposed to a third party at a consideration of US$17,685,600 and JPY1,929,798,000 at its expected date of delivery in September 2012.

## OUTLOOK

The global economic health has not been improving since early 2012. The European sovereign debt crisis continues to capture headlines of global media every now and again, with no clear solution to date; the U.S. economic growth remains tepid; in the Asian region, economic growth seems to be weakening with China in particular. China seems to be at the economic crossroads, with slowing investments and industrial activities, declining export volumes due to lower demand from the rest of the globe, and growing bad debt within Chinese domestic banks pursuant to the past credit easing. We believe maintaining healthy economic growth remains to be a prime objective for China, but delicate and controlled stimulative measures would be required as social stability must be maintained. We believe the period of double digit economic growth rates for China will not reoccur in the short term, and the overall global economic growth will remain to be stagnant.

Given such a challenging macroeconomic backdrop, we believe the volume growth of global dry seaborne trade will be limited. We remain to be cautious as we see a high level of uncertainty with the global economy, as well as increasing complications in geopolitics ahead of us.

On surface, we continue to operate in an easing monetary and low interest rate environment, but only the rare few can take advantage of this low interest rate environment and access sizeable new bank financing, as banks continue to raise their lending margins over their own increasing cost of funding while cherry picking the borrowers. With banks continue to be extremely cautious towards lending and their need to comply with new regulations, we expect scarcity of credit will intensify and cost of borrowing will rise further. Only elite corporations with sound financial position in their respective industries will gain good access to traditional bank financing. With limited credit towards the majority of businesses or investments of real economic or industrial activities, we believe downside risks remain with global economic growth.

The dry bulk shipping market remains to be extremely challenging in 2012 against this economic backdrop, where we face overwhelming oversupply in tonnages, excess shipbuilding capacity and generally lower demand growth of dry seaborne trade. Against this industry outlook, fewer banks are now offering new ship financing, especially given the extraordinary challenges they are already facing. Looking ahead, we expect further company defaults, rising counterparty risks, and further pressure on asset prices, but at the same time we believe there will be interesting opportunities for those who are patient, prepared and have placed liquidity as a priority in the past years.

We aspire to grow our business over the longer term, and will patiently and selectively look at suitable opportunities as they arise.

# CHAIRMAN'S STATEMENT

For the rest of the year, we will continue to focus on the basics as our top priority: maintain a strong financial position and a healthy gearing level, monitor cargo flows in order to deploy our vessels efficiently to optimize revenue, and keeping costs in check to enhance our margins. We see both headwind and mist ahead of us and 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.

By Order of the Board

**Ng Siu Fai**
*Chairman*

Hong Kong, 31 August 2012

## COMPLIANCE OF THE CODE PROVISIONS

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period from 1 January 2012 to 31 March 2012, and with the amended Corporate Governance Code (the "CG Code") throughout the period from 1 April 2012 to 30 June 2012, with deviations as explained in following sections.

**Code provision A.2.1 / CG Code provision A.2.1**

Under code provision A.2.1 of the Code and 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 deviations from code provision A.2.1 of the Code and 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 of the Company (the "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.

**Code provision A.4.2 / CG Code provision A.4.2**

Under code provision A.4.2 of the Code and 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 deviations from code provision A.4.2 of the Code and 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.

**Code provision A.4.1 / CG Code provision A.4.1**

Under code provision A.4.1 of the Code and the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The non-executive directors of the Company are not appointed for specific terms. This constitutes deviations from code provision A.4.1 of the Code and the CG Code. In accordance with the Articles of Association of the Company, non-executive directors will be subject to retirement by rotation at least once every three years and re-appointed at annual general meeting of the Company. The Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than those in the Code and the CG Code.

**CG Code provisions A.5.1 to A.5.5**

In respect of code provisions A.5.1 to A.5.5 of the CG Code, the Company has not established a nomination committee. In view of the current structure of the Board and business operations of the Group, the Board believes that it is not necessary to establish a nomination committee as the procedures for shareholders of the Company (the "Shareholders") to elect a director has properly published in the Company's website and the Board could monitor its structure, size and composition, review the succession plan for the Directors, in particular the Chairman and the Managing Director, and understand the need for any changes as well as maintaining contacts with Shareholders, board committee members and senior management. The relevant function performed by the Board as a whole is considered sufficient to maintain the corporate governance practices of the Company.

**CG Code provision D.1.4**

Under code provision D.1.4 of the CG Code, directors should clearly understand delegation arrangements in place. The company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

There are no formal letters of appointment for Directors setting out the key terms and conditions of their appointments. This constitutes a deviation from code provision D.1.4 of the CG Code. It is not the Company's practice to have formal letters of appointment for Directors. Nevertheless, Directors understand clearly about their duties to the Company, to which they are collectively and individually responsible for. In addition, part of these duties relate to fiduciary duties, duties of skill, care and diligence established under common law over a long period of time, and it is not feasible to attempt to formulate these duties in writing or set out in formal letters of appointment. The difficulty in reducing these duties comprehensively into written form may be inferred by the fact that, currently, directors' duties are only set out in non-statutory guidelines issued by the Companies Registry instead of being provided for in the Companies Ordinance.

## MODEL CODE FOR 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 six months ended 30 June 2012.

## AUDIT COMMITTEE

The Audit Committee comprises of three Independent Non-executive Directors. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012.

## 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 six months ended 30 June 2012.

## EMPLOYEES

As at 30 June 2012, the Group had 108 (31/12/2011: 106) 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.

## FLEET

The Group’s strategy is to maintain a young and modern fleet to serve the growing needs of our customers.

During the period, a newly built Handysize named as “Jin Yu” and a newly built Supramax named as “Jin Ze” were delivered to the Group.

As at 30 June 2012, the Group had thirty seven owned vessels which included two modern Post-Panamaxes, two modern Panamaxes, thirty one modern grabs fitted Supramaxes, one Handymax and one Handysize.

Apart from the owned vessels, the Group operated four chartered-in vessels which included two Capesizes and two Supramaxes as at 30 June 2012.

Subsequent to the six months ended 30 June 2012, a newly built Supramax named as “Jin Xiang” was delivered to the Group on 23 July 2012.

# SUPPLEMENTARY INFORMATION

## FLEET DETAILS

The fleet details after the six months ended 30 June 2012 and up to 29 August 2012 were as follows:

| | Number of vessels | | | | | | |
|---|---|---|---|---|---|---|---|
| | In operation | | | Newbuildings / New charters | | | |
| | Owned | Chartered | Subtotal | Owned | Chartered | Subtotal | Total |
| **Capesize Fleet** | | | | | | | |
| As at 1 July 2012 and 29 August 2012 | - | 2 | 2 | - | - | - | 2 |
| **Post-Panamax Fleet** | | | | | | | |
| As at 1 July 2012 and 29 August 2012 | 2 | - | 2 | - | - | - | 2 |
| **Panamax Fleet** | | | | | | | |
| As at 1 July 2012 and 29 August 2012 | 2 | - | 2 | - | - | - | 2 |
| **Supramax / Handymax / Handysize Fleet** | | | | | | | |
| As at 1 July 2012 | 33 | 2 | 35 | 2 | - | 2 | 37 |
| Newbuilding delivery | 1 | - | 1 | (1) | - | (1) | - |
| Expiry of charter | - | (1) | (1) | - | - | - | (1) |
| As at 29 August 2012 | 34 | 1 | 35 | 1 | - | 1 | 36 |
| **Total Fleet** | | | | | | | |
| As at 29 August 2012 | 38 | 3 | 41 | 1 | - | 1 | 42 |

## SUPPLEMENTARY INFORMATION

According to the Company's best estimation, the activity of the Group's fleet as at 29 August 2012 was as follows:

**Owned and Chartered-in Fleet – revenue covered:**

| | | *Unit* | 2012 | 2013 |
|---|---|---|---|---|
| **Capesize Fleet** | Coverage | *%* | 98 | 61 |
| | Operating days covered | *Days* | 716 | 283 |
| | Daily TCE | *US$* | 11,745 | 13,400 |
| **Post-Panamax / Panamax Fleet** | Coverage | *%* | 78 | 25 |
| | Operating days covered | *Days* | 1,125 | 365 |
| | Daily TCE | *US$* | 17,517 | 38,200 |
| **Supramax / Handymax / Handysize Fleet** | Coverage | *%* | 77 | 20 |
| | Operating days covered | *Days* | 9,456 | 2,558 |
| | Daily TCE | *US$* | 17,974 | 32,489 |

**Chartered-in Fleet – TCE cost:**

| | | *Unit* | 2012 | 2013 |
|---|---|---|---|---|
| **Capesize Fleet** | Operating days | *Days* | 732 | 466 |
| | Daily TCE cost | *US$* | 40,750 | 42,591 |
| **Supramax Fleet** | Operating days | *Days* | 596 | 300 |
| | Daily TCE cost | *US$* | 26,656 | 36,000 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2012*

| | Note | **Six months ended 30/6/2012 (Unaudited)** ***HK$'000*** | Six months ended 30/6/2011 (Unaudited) *HK$'000* |
|---|---|---|---|
| **Revenue** | *2* | **1,066,674** | 1,544,617 |
| Other operating income | *3* | **159,890** | 102,401 |
| Interest income | | **19,063** | 13,361 |
| Shipping related expenses | *4* | **(651,266)** | (718,650) |
| Cost of trading goods sold | | **(129,655)** | (205,669) |
| Staff costs | | **(31,319)** | (28,423) |
| Other operating expenses | | **(56,573)** | (55,522) |
| **Operating profit before depreciation and amortization** | *5* | **376,814** | 652,115 |
| Depreciation and amortization | | **(215,373)** | (196,049) |
| **Operating profit** | | **161,441** | 456,066 |
| Finance costs | | **(33,943)** | (25,999) |
| **Profit before taxation** | | **127,498** | 430,067 |
| Taxation | *6* | **(118)** | (882) |
| **Net profit and total comprehensive income for the period** | | **127,380** | 429,185 |
| **Net profit and total comprehensive income for the period attributable to:** | | | |
| Shareholders of the Company | | **67,992** | 234,328 |
| Non-controlling interests | | **59,388** | 194,857 |
| | | **127,380** | 429,185 |
| **Earnings per share** | *7* | | |
| - Basic | | **HK$0.128** | HK$0.442 |
| - Diluted | | **HK$0.128** | HK$0.430 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2012*

| | Note | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **9,391,344** | 9,005,279 |
| Investment properties | | **90,228** | 58,910 |
| Goodwill | | **39,040** | 39,040 |
| Available-for-sale financial assets | | **23,681** | 23,681 |
| Intangible assets | | **1,850** | 1,933 |
| | | **9,546,143** | 9,128,843 |
| **Current assets** | | | |
| Inventories | | **65,463** | 53,472 |
| Trade and other receivables | *9* | **407,764** | 410,776 |
| Financial assets at fair value through profit or loss | | **545,818** | 492,659 |
| Pledged deposits | *10* | **279,711** | 61,582 |
| Bank balances and cash | *11* | **1,245,225** | 1,618,254 |
| | | **2,543,981** | 2,636,743 |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **593,445** | 577,136 |
| Current taxation | | **59** | 308 |
| Secured bank loans | *13* | **727,209** | 536,572 |
| | | **1,320,713** | 1,114,016 |
| **Net current assets** | | **1,223,268** | 1,522,727 |
| **Total assets less current liabilities** | | **10,769,411** | 10,651,570 |
| **Non-current liabilities** | | | |
| Secured bank loans | *13* | **3,993,509** | 4,003,048 |
| **Net assets** | | **6,775,902** | 6,648,522 |
| **EQUITY** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Issued capital | | **53,029** | 53,029 |
| Reserves | | **3,749,628** | 3,681,636 |
| | | **3,802,657** | 3,734,665 |
| **Non-controlling interests** | | **2,973,245** | 2,913,857 |
| **Total equity** | | **6,775,902** | 6,648,522 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2012*

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Issued capital** | **Share premium** | **Capital redemption reserve** | **Other asset revaluation reserve** | **Employee share-based compensation reserve** | **Reserve for available-for-sale financial assets** | **Retained profits** | **Subtotal** | **Non-controlling interests** | **Total equity** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| At 1 January 2011 | 53,029 | 324,590 | 4,020 | 4,777 | 26,259 | 8,496 | 3,049,329 | 3,470,500 | 2,695,353 | 6,165,853 |
| Net profit and total comprehensive income for the period | - | - | - | - | - | - | 234,328 | 234,328 | 194,857 | 429,185 |
| At 30 June 2011 | 53,029 | 324,590 | 4,020 | 4,777 | 26,259 | 8,496 | 3,283,657 | 3,704,828 | 2,890,210 | 6,595,038 |
| At 1 January 2012 | 53,029 | 324,590 | 4,020 | 4,777 | 26,259 | 13,395 | 3,308,595 | 3,734,665 | 2,913,857 | 6,648,522 |
| Net profit and total comprehensive income for the period | - | - | - | - | - | - | 67,992 | 67,992 | 59,388 | 127,380 |
| **At 30 June 2012** | **53,029** | **324,590** | **4,020** | **4,777** | **26,259** | **13,395** | **3,376,587** | **3,802,657** | **2,973,245** | **6,775,902** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2012*

| | **Six months ended 30/6/2012 (Unaudited) *HK$'000*** | Six months ended 30/6/2011 (Unaudited) *HK$'000* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Cash generated from operations | **312,771** | 505,317 |
| Interest paid | **(34,015)** | (24,424) |
| PRC Corporate Income Tax paid | **(367)** | (328) |
| **Net cash from operating activities** | **278,389** | 480,565 |
| **INVESTING ACTIVITIES** | | |
| Interest received | **16,012** | 12,852 |
| Decrease in bank deposits with more than three months to maturity when placed | **12,448** | 78,000 |
| Dividend income received | **1,285** | 1,983 |
| Purchase of property, plant and equipment | **(601,418)** | (1,046,462) |
| Proceeds from disposal of property, plant and equipment | **50** | 2,399 |
| Purchase of investment properties | **(31,318)** | - |
| **Net cash used in investing activities** | **(602,941)** | (951,228) |
| **FINANCING ACTIVITIES** | | |
| New secured bank loans | **464,450** | 532,545 |
| Repayment of secured bank loans | **(282,350)** | (232,657) |
| Decrease (Increase) in pledged deposits | **(218,129)** | 7,350 |
| **Net cash from (used in) financing activities** | **(36,029)** | 307,238 |
| **Net decrease in cash and cash equivalents** | **(360,581)** | (163,425) |
| **Cash and cash equivalents at 1 January** | **1,410,161** | 1,524,616 |
| **Cash and cash equivalents at 30 June** | **1,049,580** | 1,361,191 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012 have been reviewed by our auditors, Grant Thornton (formerly known as Grant Thornton Jingdu Tianhua), in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). An unmodified review conclusion has been issued by the auditors.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2011.

### 2. Segment information

The Group is principally engaged in the businesses of ship chartering and ship owning, and trading of chemical and industrial raw materials and the management has regarded these two businesses as the operating segments to be reported to the chief operating decision maker.

The following tables present the Group's reportable segment revenue and segment results for the six months ended 30 June 2012 and 2011, and reconcile the Group's total reportable segment results to the Group's net profit for the period as presented in the condensed consolidated statement of comprehensive income.

| | **Chartering freight and hire (Unaudited)** *HK$'000* | **Trading (Unaudited)** *HK$'000* | **Total (Unaudited)** *HK$'000* |
|---|---|---|---|
| ***Six months ended 30 June 2012*** | | | |
| Segment revenue | **930,286** | **136,388** | **1,066,674** |
| Segment results | **149,446** | **(632)** | **148,814** |
| *Unallocated income and expenses* | | | |
| Interest income | | | **19,063** |
| Unallocated other operating income | | | **2,502** |
| Unallocated corporate expenses | | | **(42,881)** |
| Profit before taxation | | | **127,498** |
| Taxation | | | **(118)** |
| Net profit for the period | | | **127,380** |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

| | Chartering freight and hire (Unaudited) *HK$'000* | Trading (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* |
|---|---|---|---|
| *Six months ended 30 June 2011* | | | |
| Segment revenue | 1,325,901 | 218,716 | 1,544,617 |
| Segment results | 423,936 | 5,127 | 429,063 |
| *Unallocated income and expenses* | | | |
| Interest income | | | 13,361 |
| Unallocated other operating income | | | 5,471 |
| Unallocated corporate expenses | | | (17,828) |
| Profit before taxation | | | 430,067 |
| Taxation | | | (882) |
| Net profit for the period | | | 429,185 |

The following tables present the Group's reportable segment assets at each of the end of the reporting period, and reconcile the Group's total reportable segment assets to the Group's total assets as presented in the condensed consolidated statement of financial position.

| | **Chartering freight and hire (Unaudited)** ***HK$'000*** | **Trading (Unaudited)** ***HK$'000*** | **Total (Unaudited)** ***HK$'000*** |
|---|---|---|---|
| ***As at 30 June 2012*** | | | |
| Segment assets | **9,560,236** | **85,895** | **9,646,131** |
| *Unallocated assets* | | | **2,443,993** |
| Total assets | | | **12,090,124** |

| | Chartering freight and hire (Audited) *HK$'000* | Trading (Audited) *HK$'000* | Total (Audited) *HK$'000* |
|---|---|---|---|
| *As at 31 December 2011* | | | |
| Segment assets | 9,167,866 | 83,507 | 9,251,373 |
| *Unallocated assets* | | | 2,514,213 |
| Total assets | | | 11,765,586 |

**3. Other operating income**

Other operating income for the six months ended 30 June 2012 mainly included settlement income of HK$123,337,000 in relation to the full settlement income from a charterer for early termination of time-charter contract, and the partial settlement of claim for damages and losses against Korea Line Corporation ("KLC") by receiving shares of KLC. These shares had been accounted for as financial assets at fair value through profit or loss as at 30 June 2012.

For the same corresponding period in 2011, there was a compensation income of HK$24,559,000 received from a charterer for early redelivery of a chartered-in Capesize prior to expiry of the charter period.

**4. Shipping related expenses**

Shipping related expenses mainly include hire payments and commission payments, vessels operating expenses, and provision for loss on charter hire. Vessels operating expenses primarily comprise of crew expenses, insurances, spare parts and consumables, repairs and maintenance, and other operating expenses.

Provision for loss on charter hire is recognized when the Group has present obligation arising under onerous charter contracts, where the unavoidable costs of meeting the contractual obligations exceed the expected economic benefits to be received under the contracts.

The following table illustrated the net provision for loss on charter hire charged to the Group's condensed consolidated statement of comprehensive income for the periods.

| | **Six months ended 30/6/2012 (Unaudited)** *HK$'000* | Six months ended 30/6/2011 (Unaudited) *HK$'000* |
|---|---|---|
| Provision recognized | **174,662** | 165,192 |
| Provision utilized | **(83,545)** | (26,282) |
| Net provision for loss on charter hire | **91,117** | 138,910 |

In 2011, the Group's two chartered-in Capesizes were chartered-out at operating loss under two spot chartered-out contracts to be expired in April 2012. When approaching expiration of two chartered-out contracts, the Group committed the two Capesizes to new employment contracts in March and April 2012. Both employments were loss-making as the expected economic benefits derived from the contracts were below the fixed costs under two Capesizes' long term chartered-in contracts. Accordingly, the Group recognized provision for loss on charter hire of HK$174,662,000 in the first half of 2012 for contracts which covered minimum lease periods of eight months until December 2012 and eighteen months until October 2013 respectively.

**5. Operating profit before depreciation and amortization**

This is stated after charging / (crediting):

| | **Six months ended 30/6/2012 (Unaudited)** *HK$'000* | Six months ended 30/6/2011 (Unaudited) *HK$'000* |
|---|---|---|
| (Reversal of impairment loss) Impairment loss on trade receivables | **(459)** | 13,180 |
| Dividend income | **(1,285)** | (2,118) |
| Net loss on financial assets at fair value through profit or loss | **25,719** | 2,951 |
| Net loss (gain) on disposal / write-off of property, plant and equipment | **12** | (1,743) |

## 6. Taxation

The amount of taxation charged to the condensed consolidated statement of comprehensive income represents:

| | **Six months ended 30/6/2012 (Unaudited)** | Six months ended 30/6/2011 (Unaudited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong Profits Tax: | | |
| Current period | **-** | 656 |
| PRC Corporate Income Tax: | | |
| Current period | **118** | 226 |
| | **118** | 882 |

Hong Kong Profits Tax has not been provided as the Group has no assessable profits for the six months ended 30 June 2012 (30/6/2011: 16.5% on the estimated assessable profits). In the opinion of the Directors, for the six months ended 30 June 2012 and 2011, 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 has been provided at the applicable rate on the estimated assessable profits of a PRC subsidiary for the six months ended 30 June 2012 and 2011.

Apart from tax charges on estimated assessable profits arising in Hong Kong and mainland China, the Group is not subject to taxation in any other jurisdictions in which the Group operates.

## 7. Earnings per share

Basic and diluted earnings per share for the six months ended 30 June 2012 were calculated on the net profit attributable to shareholders of the Company for the period of HK$67,992,000 and the weighted average number of 530,289,480 ordinary shares in issue during the period. Diluted earnings per share for the period was the same as basic earnings per share as the exercise prices of the share options were greater than the average market price of the Company's share for the period and thus there was no potential dilutive effect on the basic earnings per share.

Basic earnings per share for the six months ended 30 June 2011 was calculated on the net profit attributable to shareholders of the Company for the period of HK$234,328,000 and the weighted average number of 530,289,480 ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2011 was calculated on the net profit attributable to shareholders of the Company for the period of HK$234,328,000 and the weighted average number of 530,289,480 ordinary shares in issue during the period and adjusting for the potential dilutive ordinary shares of 14,849,176 arising from the share options granted under the Company's share option scheme.

**8. Interim dividend**

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2012 (30/6/2011: nil).

**9. Trade and other receivables**

| | **30 June 2012** | 31 December 2011 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **59,169** | 93,280 |
| Prepayments, deposits and other receivables | **348,595** | 317,496 |
| | **407,764** | 410,776 |

The aging analysis of trade receivables (net of impairment loss) is as follows:

| | **30 June 2012** | 31 December 2011 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **47,909** | 81,353 |
| Over 3 months but within 6 months | **7,532** | 3,698 |
| Over 6 months but within 12 months | **1,563** | 7,016 |
| Over 12 months | **2,165** | 1,213 |
| | **59,169** | 93,280 |

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 credit terms given to trading customers vary based on the financial assessments and payment track records. General credit terms for trading customers range from 30 to 90 days following the month in which sales take place.

**10. Pledged deposits**

At the end of the reporting period, the amount included deposits of HK$203,893,000 (31/12/2011: nil) placed with a bank as collaterals for demand loans denominated in Japanese Yen of JPY1,768,172,000 (approximately HK$171,650,000) being drawn in June 2012.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 11. Bank balances and cash

| | 30 June 2012 (Unaudited) *HK$'000* | 31 December 2011 (Audited) *HK$'000* |
|---|---|---|
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | **1,049,580** | 1,410,161 |
| Bank deposits with more than three months to maturity when placed | **195,645** | 208,093 |
| | **1,245,225** | 1,618,254 |

### 12. Trade and other payables

| | 30 June 2012 (Unaudited) *HK$'000* | 31 December 2011 (Audited) *HK$'000* |
|---|---|---|
| Trade payables | **24,584** | 14,612 |
| Accrued charges and other payables | **568,861** | 562,524 |
| | **593,445** | 577,136 |

The aging analysis of trade payables is as follows:

| | 30 June 2012 (Unaudited) *HK$'000* | 31 December 2011 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **8,471** | 7,652 |
| Over 3 months but within 6 months | **626** | - |
| Over 6 months but within 12 months | **9,648** | 1,140 |
| Over 12 months | **5,839** | 5,820 |
| | **24,584** | 14,612 |

At the end of the reporting period, other payables included provision for loss on charter hire of HK$146,396,000 (31/12/2011: HK$55,279,000), being the expected economic benefits derived from chartered-out contracts less the fixed costs under the respective chartered-in contracts.

The movements for provision for loss on charter hire during the period / year are as follows:

| | **30 June 2012** | 31 December 2011 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **55,279** | - |
| Provision recognized | **174,662** | 165,192 |
| Provision utilized | **(83,545)** | (109,913) |
| At 30 June / 31 December | **146,396** | 55,279 |

**13. Secured bank loans**

| | **30 June 2012** | 31 December 2011 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Vessel mortgage loans | **4,530,924** | 4,521,461 |
| Trust receipt loans | **18,144** | 18,159 |
| Demand loans | **171,650** | - |
| Total secured bank loans | **4,720,718** | 4,539,620 |
| Less: Amount repayable within one year | **(727,209)** | (536,572) |
| Amount repayable after one year | **3,993,509** | 4,003,048 |

Vessel mortgage loans and trust receipt loans were denominated in U.S. Dollars and were committed on floating rate basis. Demand loans were denominated in Japanese Yen and were committed on fixed rate basis with short duration varying from 3 to 8 days. The demand loans allow flexibility for the Group to further enhance its working capital requirements at very low funding costs and to swiftly manage the currency exposures. At the end of the reporting period, the outstanding demand loans were JPY1,768,172,000 (approximately HK$171,650,000) (31/12/2011: nil) which were collateralized by pledged deposit of HK$203,893,000 (31/12/2011: nil).

**14. Capital expenditures and commitments**

During the six months ended 30 June 2012, capital expenditure on additions of the owned vessels and vessels under construction was HK$597,109,000 (30/6/2011: HK$1,038,235,000), on other property, plant and equipment was HK$4,309,000 (30/6/2011: HK$8,227,000), and on investment properties was HK$31,318,000 (30/6/2011: nil).

As at 30 June 2012, the total amount of capital expenditure commitments contracted by the Group but not provided for, net of deposits paid, was approximately HK$646,950,000 (31/12/2011: HK$1,227,135,000), representing the Group's outstanding capital expenditure commitments to acquire three (31/12/2011: five) newbuildings at total contract price of US$17,500,000 and JPY9,810,500,000 (31/12/2011: US$35,000,000 and JPY16,221,000,000).

The above capital expenditure commitments included a Supramax newbuilding at original cost of US$17,500,000 and JPY1,910,500,000, which was contracted to be disposed to a third party at a consideration of US$17,685,600 and JPY1,929,798,000 at its expected date of delivery in September 2012.

**15. Comparative figures**

Certain comparative figures have been included in order to conform to the current period’s presentation.

## PUBLICATION OF FINANCIAL INFORMATION

The interim report of the Company for the six months ended 30 June 2012 containing all the detailed information will be despatched to shareholders of the Company and available on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.jinhuiship.com in due course.

*As at date of this announcement, the Executive Directors of the Company are Ng Siu Fai, Ng Kam Wah Thomas, Ng Ki Hung Frankie and Ho Suk Lin; and the Independent Non-executive Directors of the Company are Cui Jianhua, Tsui Che Yin Frank and William Yau.*