

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

Jinhui Shipping recognizes the importance of good corporate governance to the Company's value creation and has devoted considerable efforts to identify and formulate corporate governance practices appropriate to the Company in terms of practicality and suitability. The Board has the overall responsibility for the Company's corporate governance and ensures the Company implements sound corporate governance practice.

### **SECTION 3-3B OF THE NORWEGIAN ACCOUNTING ACT**

The following specifies the items or information that must be disclosed under Section 3-3b of the Norwegian Accounting Act:

#### **1. A statement of the code of practice and regulatory framework for corporate governance**

Pursuant to Continuing Obligations, companies listed on the Oslo Stock Exchange must publish a comprehensive report on the company's corporate governance in the directors' report or in a document that is referred to in the directors' report. The report must cover every section of the Norwegian Code of Practice and must include the required report contents as set out in Section 3-3b of the Norwegian Accounting Act.

Jinhui Shipping has applied the principles as set out in the Norwegian Code of Practice as its corporate governance structure. The Company gives an annual review of the corporate governance report which covers every section for its compliance with the Norwegian Code of Practice, and explains the deviations with selected alternative approaches on pages 13 to 29 with the numbers refer to the section's numerical order of the Norwegian Code of Practice.

#### **2. Information on where the code of practice and regulatory framework is publicly available**

The Norwegian Code of Practice, which was revised and published on 17 October 2018 is available on the Norwegian Corporate Governance Board website ([www.nues.no](http://www.nues.no)) and the Continuing Obligations is available on the Oslo Bors website ([www.oslobors.no](http://www.oslobors.no)).

### **3. Explanation for any deviation from the Norwegian Code of Practice**

Jinhui Shipping adhered to the Norwegian Code of Practice throughout the year except for certain deviations. We report our conformance and provide explanation of the reasons for the deviations and what solution we have selected in below fifteen separate sections as described in the Norwegian Code of Practice.

### **4. Description of the main elements of the Group's internal control and risk management systems associated with the financial reporting process**

The Board is responsible for ensuring financial reporting process is subject to adequate control and has laid down instructions and guidelines on its own works as well as for the executive personnel on day-to-day operations and ongoing financial monitoring. The Board carries out a review of the Group's most significant risk areas in every six months and performs an annual review of its internal control systems. The Audit Committee assists the Board relating to the efficiencies of the Group's internal control over the financial reporting process; the effectiveness of the Group's risk management policies; and the qualifications and independence of the external auditor.

The Group adopts a uniform generally accepted accounting practice in the preparation of financial statements of the Company and its subsidiaries. The internal control systems identified in the financial reporting process are primarily designed to mitigate the risks including financial reporting risk, compliance-related risk, fraud risk, and risk on financial-accounting-related IT systems. The control procedures mainly include authorizations, segregation of duties, reconciliations, management review and IT controls over financial-accounting-related IT systems. To ensure adequate and effective internal control on financial reporting process is adopted and implemented, key control procedures are ongoing monitored by the executive personnel, regularly assessed by the Board and the Audit Committee and annually reviewed by the external auditor.

### **5. Provision in the Company's Memorandum of Association governing general meetings**

The Company's Memorandum of Association and Bye-Laws laid down the shareholders' right proceedings at general meetings, voting rights, proxies, transfer of shares, and also the rules governing the alteration or amendment to bye-laws and memorandum of association. Both do not extend or depart from the general rules laid down in Chapter 5 of the Norwegian Public Limited Liability Companies Act, which governs general meetings. The Company's Memorandum of Association and Bye-Laws have been publicly disclosed in the website of the Company.

### **6. Composition of the Board and the main elements in the prevailing board instructions and guidelines**

The Board adopted the Company's Bye-Laws 87 to 134 as its prevailing board instructions of procedures which laid down general powers, proceedings and administrative procedures of the directors of the Company. The Board also produces an annual plan with particular emphasis on business objectives and strategies and evaluates its performance in relation to the objectives set out for its works every year.

The Board Committees, which include the Audit Committee and the Remuneration Committee, are appointed by the Board under respective terms of reference that specified their authorities, duties, reporting responsibilities and reporting procedures. The respective terms of reference of the Audit Committee and the Remuneration Committee have been publicly disclosed in the website of the Company. The composition of the Board and the board committee functions are further discussed below in Section 8 and Section 9 under the Norwegian Code of Practice.

### **7. Provision in the Company's Bye-Laws that regulates the appointment and replacement of members of the Board**

Pursuant to the Company's Bye-Law 87, the Directors shall be elected or appointed in the first place at the statutory meeting of members and thereafter in accordance with Bye-Law 88 and shall hold office until the next appointment of Directors or until their successors are elected or appointed.

Bye-Law 88 stipulates that notwithstanding any other provisions in the Company's Bye-Laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and / or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

There are also provisions in Bye-Law 87 and Bye-Law 90 in relation to the removal of Directors and the disqualification of Directors.

### **8. Mandates that give the Board the right to decide on share repurchases or to issue new shares**

There is no provision in the Company's Bye-Laws giving the Board the right to decide on share repurchases or to issue new shares. Yet, there are two existing general mandates in place that give the Board the power to repurchase shares of the Company which shall not be more than 10% of the aggregate nominal amount of the issued share capital of the Company and the power to issue, allot and dispose of shares of the Company not exceeding the aggregate of 30% of the issued share capital of the Company on the date of the resolution. These general mandates were granted to the Board in the Company's annual general meeting held on 16 May 2018 and are valid until the earlier of the date of the next annual general meeting or otherwise revoked or determined by shareholders at a general meeting of the Company.

### **NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE**

The section numbers mentioned below refer to the fifteen sections under the Norwegian Code of Practice.

#### **Section 1 Implementation and reporting on corporate governance**

Jinhui Shipping has applied and followed the principles as set out in the Norwegian Code of Practice. The corporate governance report of 2018 covered every section of Norwegian Code of Practice with the description of our conformance throughout the year and the explanation of the reasons for the deviations.

#### **Section 2 Business**

The objects of Jinhui Shipping are set out in its Memorandum of Association, which include the businesses of, inter alia:

- acting and performing all the functions of a holding company;
- acting as ship owners, managers, operators and agents; and
- acquiring, owning, selling, chartering, repairing or dealing in ships.

The Group's main objectives, strategies and risk profiles for our businesses are discussed in "Strategies and Business Profile" on pages 5 and 6 in JST 2018 Annual Report and in the section of Risk Management in "Directors' Report" on pages 46 and 47 in JST 2018 Annual Report.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

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. The Company Code also includes corporate social responsibility guidelines and ethical guidelines, and is prepared and updated by referencing to the principles set out in the Norwegian Code of Practice and other applicable rules and regulations. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the Norwegian Code of Practice and ultimately ensuring high transparency and accountability to the Company's shareholders. The directors and employees of Jinhui Shipping are subject to a range of rules laid down by legislation and regulations, as well as the Company Code and rules and ethical values and guidelines described in the staff handbooks.

Jinhui Shipping shall maximize shareholders' values by increasing the Company's equity value and distributing dividends to shareholders and the Board evaluates the strategies and risk profiles annually.

### **Section 3 Equity and dividends**

#### **Equity**

Jinhui Shipping's capital adequacy is kept under constant review in relation to its objectives, strategies and risk profile. As at 31 December 2018, the Group's total equity was US\$250,953,000, accounting for 69% of its consolidated total assets. The Board considers the present equity structure to be satisfactory.

#### **Dividend policy**

The amount and timing of any dividend distributions in the future will depend, among other things, on our compliance with covenants in our credit facilities, earnings, financial condition, cash position, Bermuda law affecting the dividend distributions, restrictions in our financing agreements and other factors. In addition, the declaration and payment of dividend distributions is subject at all times to the discretion of our Board.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

The Board has resolved to recommend the payment of a final dividend of US\$0.023 per share for the year ended 31 December 2018 and such dividend, if approved by the shareholders at the forthcoming annual general meeting scheduled on 15 May 2019, will be paid to the beneficial owners of the shares of the Company whose names are registered in the Norwegian Verdipapirsentralen (the Norwegian Registry of Securities) at the close of business on 20 May 2019. The Company's shares listed on the Oslo Stock Exchange will be traded including dividend up until and including 15 May 2019. The ex dividend date is 16 May 2019 and the dividend will be paid on or about 5 June 2019. On 29 August 2018, the Board resolved to pay an interim dividend of US\$0.023 per share to the shareholders of the Company. The interim dividend was paid to the shareholders of the Company on 28 September 2018. The proposed final dividend as mentioned above, if approved, will bring the total dividends for 2018 to US\$0.046 per share.

### **Increase in share capital**

According to the Company's Bye-Law 12(1), the shareholders shall have the first and preferential right to subscribe for and be allotted any shares of the Company proposed to be issued in proportion to the number of shares held by them, unless the Company by special resolution otherwise decides to waive the shareholders' preferential rights in respect of a particular issue of shares or generally for any period not exceeding five years.

At the 2018 Annual General Meeting of the Company, a general mandate had been granted to the directors of the Company to increase not exceeding the aggregate of 30% of the issued share capital of the Company which would be valid until the earlier of the date of the next annual general meeting or otherwise revoked or determined by shareholders at a general meeting of the Company. No shares were being issued under this authorization in 2018.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

**According to the Norwegian Code of Practice, the mandate granted to the board of directors to increase the company's share capital should be restricted to defined purposes.**

In view of the increasingly volatile nature of today's financial markets, the Board believes having a general mandate in place enables the Company to respond swiftly to the then prevailing market conditions should an equity fund raising exercise be determined to be the appropriate funding channel and proposes this general mandate at the forthcoming annual general meeting.

### **Purchase of own shares**

At the 2018 Annual General Meeting of the Company, a general mandate had been granted to the directors of the Company to purchase not more than 10% of the aggregate nominal amount of the issued share capital of the Company which would be valid until the earlier of the date of the next annual general meeting or otherwise revoked or determined by shareholders at a general meeting of the Company. No shares were being repurchased under this authorization in 2018.

**According to the Norwegian Code of Practice, the mandate granted to the board of directors to purchase the company's share capital should be restricted to defined purposes.**

In view of the increasingly volatile nature of today's financial markets, the Board believes having a general mandate in place enables the Company to make timely decisions according to the then prevailing market conditions should the purchase of own shares is determined to generate the most value for shareholders of the Company and proposes this general mandate at the forthcoming annual general meeting.



# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

### **Section 4 Equal treatment of shareholders and transactions with close associates**

#### **Equal treatment of shareholders**

Jinhui Shipping has one class of shares in issue. All shares have equal voting rights. There are provisions in the Company's Bye-Laws 67 to 78 in relation to shareholder's voting rights.

#### **Share issues**

In the event of an increase in share capital where the Board resolves to carry out an increase in share capital on the basis of a mandate granted to the Board that waives the pre-emption rights of existing shareholders, the justification will be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital. No shares were being issued in 2018.

#### **Transactions in its own shares**

Jinhui Shipping's shares are liquid. In the event the Company carries out transactions in its own shares, it would only carry out such transactions either through the stock exchange or at prevailing stock exchange prices if carried out in any other way. If there is limited liquidity in the Company's shares, the Company would consider other ways to ensure equal treatment of all shareholders. No transactions in shares were being carried out by the Company in 2018.

#### **Transactions with close associates**

Jinhui Shipping is a listed issuer on the Oslo Stock Exchange and is a subsidiary of Jinhui Holdings Company Limited, whose shares are listed on the Hong Kong Stock Exchange. The directors of the Company and executive personnel have the obligations to follow rules, regulations and guidelines in relation to transactions with close associates as set out by the Financial Supervisory Authority of Norway, the Stock Exchange of Hong Kong Limited, the International Accounting Standards Board and the Hong Kong Institute of Certified Public Accountants.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

### Section 5 Shares and negotiability

Jinhui Shipping's shares are freely traded in the Oslo Stock Exchange. The Company's shares are registered shares with its shareholders register located at Bermuda. Shareholders of the Company may transfer their shares by an instrument of transfer in the usual common form or in such form as decided by the Board.

In general, all shares are freely negotiable. However, the Board may deny the transfer of shares according to the Bye-Law 48 of the Company. The Board has the option to decline to register the transfer of any share if the registration of such transfer would be likely to result in 50% or more of the aggregate issued share capital and the votes of the Company being held or owned directly or indirectly by a person or persons resident for tax purposes in Norway.

The Board considers that it is appropriate to impose such restriction which protects the existing Norwegian shareholders from unexpected tax changes in Norway for the common interest of the Company and the shareholders. This type of restriction is common for Bermuda and other low-tax jurisdiction companies listed on the Oslo Stock Exchange.

The logo for Jinhui Shipping and Transportation Company Limited is a large, light purple watermark centered on the page. It features a stylized graphic above the word "JINHUI" in a serif font. The graphic consists of a vertical bar in the center, flanked by two curved shapes that resemble the hulls of ships or stylized waves.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

### Section 6 General meetings

#### Attendance by shareholders

Shareholders of the Company are entitled to attend shareholders' meeting in person or by proxy. The notice of calling general meeting and the supporting information, including the procedures for representation at the meeting through a proxy, the information for each resolution to be considered at the general meeting and for each of the candidates nominated for election, are published on the Company's website no later than 21 days prior to the date of the general meeting.

As a general rule, decisions which shareholders are entitled to make pursuant to Bermuda law may be made by a simple majority of votes cast at a general meeting. However, the Bye-Laws of the Company provides that any decision to, inter alia, amend Bye-Laws of the Company or alter the share capital of the Company requires the approval of at least two-thirds of votes cast by those members present in person or by proxy at a general meeting.

In order to comply with the requirements of the Registration Agreement dated 30 September 1994 between the Company and Nordea Bank, and Bermuda law, all of the shares of the Company registered in the VPS are registered on the register of shareholders of the Company in the name of Nordea Bank. Nordea Bank alone will be entitled to attend and vote at general meetings in respect of shares so held. Nordea Bank has agreed that whenever it receives a notice that a shareholders' meeting of the Company is called, it shall despatch to each beneficial owner of the shares registered in the VPS (or its nominee), a copy of the notice. Nordea Bank has also agreed not to attend or vote at any such meeting other than in accordance with proxies from shareholders registered in the VPS. In order to vote through Nordea Bank at annual or special general meetings, shareholders must have registered their shareholdings in the VPS (usually registration of shares takes 3 business days) and have deposited a valid proxy form at Nordea Bank not less than 48 hours before the time appointed for holding the general meeting.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

### **Participation by shareholders in absentia**

Shareholders are given information on the procedures for representation at the general meeting through a proxy. As an alternative to voting in person in the general meetings, shareholders may appoint the chairman of the general meeting or to appoint another person as their proxies to attend and vote at the general meeting according to the procedures and instructions as shown in the notice of general meetings.

The proxy form of the Company is drawn up with separate voting instructions for each matter to be considered by the meeting. For directors who are subject to retirement by rotation at the annual general meeting, shareholders are given the opportunity to vote separately for each candidate nominated for election or re-election as director of the Company.

### **Attendance by the board of directors and auditor**

The Chairman attends and chairs the general meetings. Other members of the Board are entitled to attend and the external auditor is present at the annual general meeting. The 2019 Annual General Meeting is scheduled on 15 May 2019. Notice of 2019 Annual General Meeting will be published on the website of the Company and the NewsWeb of the Oslo Stock Exchange and will be despatched to shareholders of the Company together with the 2018 annual report in early April 2019.

### **Chairman of the general meetings**

According to Bye-Law 64 of the Company, every general meeting of the Company should be chaired by the president of the Company or the Chairman, or in his absence, another Director.

**This constitutes a deviation from the Norwegian Code of Practice which states that the general meeting should be chaired by an independent chairman.**

The Board considers that as the leader of the Group and having sufficient experience and knowledge, the Chairman is the most suitable person to chair a general meeting.

### Section 7 Nomination committee

**The Company has not established a nomination committee and there is no provision for establishing such committee in its Bye-Laws. This constitutes a deviation from the Norwegian Code of Practice.**

The Board considers that it could monitor the need for any changes in the composition of its members and to maintain contacts with shareholders, board committee members and executive personnel. The Board believes that the current board composition is sufficient to represent the interests of all shareholders.

The Board will undertake adequate due diligence in respect of such individual and consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

- (a) Reputation for integrity;
- (b) Accomplishment, experience and reputation in the shipping industry and other relevant sectors;
- (c) Commitment in respect of sufficient time, interest and attention to the Company's business;
- (d) Diversity in all aspects, including but not limited to gender, age, cultural / educational and professional background, skills, knowledge and experience;
- (e) The ability to assist and support management and make significant contributions to the Company's success; and
- (f) Any other relevant factors as may be determined by the Board from time to time.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Bye-Laws and other applicable rules and regulations.

### **Section 8 Board of Directors: composition and independence**

The Board has the ultimate responsibility for the management and administration of the affairs of the Company and for supervising day-to-day management and activities in general; it also has the overall responsibility for the Group's good corporate governance practices, internal control and risk management.

During the year, the Board comprised of four executive directors, including the Chairman and the Managing Director, and two non-executive directors. The Chairman is responsible for overseeing the functioning of the Board whilst the Managing Director, supported by the executive directors, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board. All non-executive directors, who are shareholder-elected members and independent of executive personnel, material business contacts and main shareholders of the Company, serve the important function of advising the management on strategies development and ensure that the Group maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

All directors of the Company are kept informed on a timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The Board meets regularly and approves the Group's overall strategies, major acquisitions and disposals, annual and quarterly results and any other significant operational and financial matters. Members of the Board are encouraged to own shares in the Company. The directors will seek independent professional advice in performing their duties where appropriate. Executive personnel have the responsibility for implementation of the Group's strategic planning and decision made by the Board and monitoring day-to-day operation of the Company.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

(Extracted from Annual Report 2018)

Bye-Law 88 stipulates that notwithstanding any other provisions in the Company's Bye-Laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and / or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As at date of this annual report, directors who hold office of the Company are listed below:

### Executive Directors

Ng Siu Fai <sup>1</sup>, *Chairman*

Ng Kam Wah Thomas <sup>1</sup>, *Managing Director and Deputy Chairman*

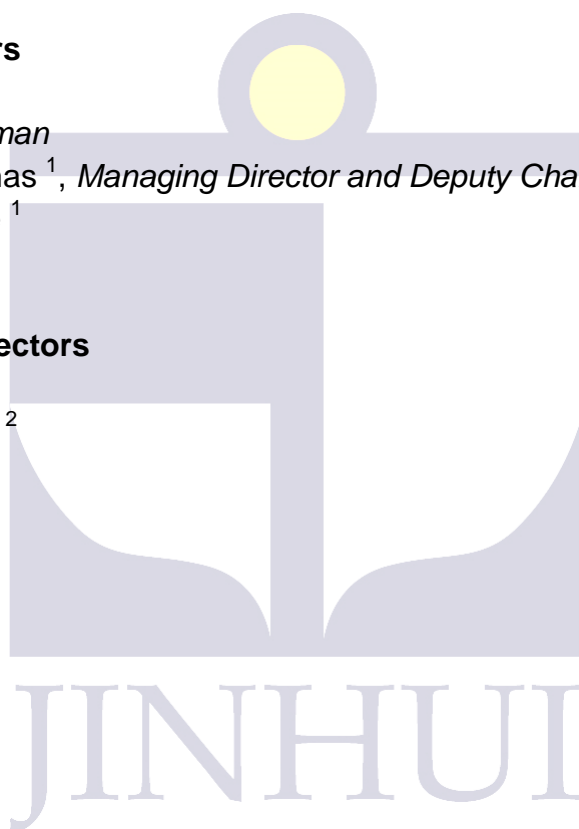
Ng Ki Hung Frankie <sup>1</sup>

Ho Suk Lin Cathy <sup>1</sup>

### Non-executive Directors

Tsui Che Yin Frank <sup>2</sup>

William Yau <sup>2</sup>



#### Notes:

1. Mr. Ng Siu Fai, Mr. Ng Kam Wah Thomas, Mr. Ng Ki Hung Frankie and Ms. Ho Suk Lin Cathy are executive directors of Jinhui Holdings Company Limited, the Company's holding company.
2. Mr. Tsui Che Yin Frank and Mr. William Yau are independent non-executive directors of Jinhui Holdings Company Limited.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

**There are departures from the Norwegian Code of Practice which states that general meeting should elect the chairman of the board of directors; the board of directors should not include executive personnel; and the term of office for members of the board of directors should not be longer than two years at a time.**

Dry bulk shipping is a highly specialized industry, and requires executives with substantial amount of industry experience to fully comprehend and to monitor the performance of the Group. The Chairman and the Managing Director have extensive experience and knowledge in dry bulk shipping business and their duties for overseeing the functioning of the Board and all aspects of the Group's operations are clearly beneficial to the Group. Despite the executive directors being executive personnel of the Group and performing executive management function in day-to-day operations, the leadership of the Chairman and the Managing Director is vital to the Group's business continuity and stability and the other two executive directors are with extensive experiences in shipping business and management. In addition, members of the Board are obliged to disqualify themselves from participation in handling of individual matters in which the board member, or its close associates, has a particular interest. The Company believes the current board composition is sufficient to represent the interests of all shareholders and this will not impair the balance of power and authority between the Board and the management of the Company. The biographical details of the directors of the Company are set out in "Board of Directors and Executive Personnel" on pages 30 and 31.in JST 2018 Annual Report.

JINHUI



# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

(Extracted from Annual Report 2018)

### Board meetings attendance

The Board meets at least quarterly and on other occasions when a Board decision is required on major issues. In 2018, the Board held eight meetings. The attendance record of each member of the Board is set out below:

<b>Executive Directors</b>	<b>Attendance</b>
Ng Siu Fai	5
Ng Kam Wah Thomas	8
Ng Ki Hung Frankie	7
Ho Suk Lin Cathy	8

<b>Non-executive Directors</b>	<b>Attendance</b>
Tsui Che Yin Frank	6
William Yau	6

### Section 9 The work of the Board of Directors

The Board deals with matters of strategic and major financial importance to the Company on a regular basis. At least one Board meeting per annum is set aside for discussion of the Group's strategies. During such meetings, the Board reviews the expectation of the Group's business outlook and financial forecast perspective and discusses the overall strategies going forward. In any material event that the Chairman has an active involvement, the Board meeting will be chaired by other members of the Board. In addition, the Company has established guidelines to make sure the directors of the Company and executive personnel would notify the Board if they have any material direct or indirect interest in any transaction entered into by the Company and its subsidiaries and would pay particular attention to obtain independent valuations for any material transactions between the Group and its close associates. According to the Company Code, members of the Board are obliged to disqualify themselves from participation in handling of individual matters in which the board members, or its close associates, have a particular interest. These practices would ensure independence of matters to be considered by the Board. The Board has guidelines on its own works as well as for the executive personnel with clear internal allocation of responsibilities and duties.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

### **Board committees**

The Board is assisted by two board committees which are Audit Committee and Remuneration 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 and members of such committees are restricted to members of the Board who are independent of executive personnel. They assist the Board in specific areas and make recommendations to the Board. However, only the Board has the power to make final decisions.

### **Audit Committee**

The Audit Committee was established on 17 March 2006. The members of Audit Committee comprised of two non-executive directors, namely Mr. Tsui Che Yin Frank (chairman of Audit Committee) 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 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 half-yearly and annual reports before submission to the Board. The Group's annual consolidated financial statements for the year ended 31 December 2018 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.

### Remuneration Committee

The Remuneration Committee was established on 17 March 2006. The members of Remuneration Committee comprised of two non-executive directors, namely Mr. Tsui Che Yin Frank (chairman of Remuneration Committee) and Mr. William Yau. The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive directors and executive personnel, including salaries, bonuses, benefits in kind, pension rights and compensation payments, and make recommendations to the Board on the fees for the non-executive directors. The Remuneration Committee should consider factors such as the performance of executive directors and executive personnel, the profitability of the Group, salaries paid by comparable companies, time commitment and responsibilities of the executive directors and executive personnel, 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.

As a matter of principle, no loans or advances are granted to any director. Presently, no share options are granted to any director by the Company.

The Remuneration Committee holds a meeting annually to review the remuneration to directors of the Company and executive personnel of the Group and makes recommendations to the Board.

JINHUI

### **Section 10 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 relevant legislation and regulations compliance. For the year 2018, 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 adequate and appropriate actions have been taken.

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, including guidelines for corporate social responsibility.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

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 relevant legislation and regulations. 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 and for reviewing the adequacy and effectiveness of the risk management and internal control systems of the Group. 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 "Directors' Report" on pages 46 and 47 and note 37 to the consolidated financial statements on pages 106 to 112 in JST 2018 Annual Report.

### **Section 11 & 12 Remuneration of the Board of Directors and executive personnel**

Directors' fees represent remuneration to members for holding capacity as directors of the Company and are determined based on the responsibility and expertise of the members, time commitment and the complexity of the Company's activities and do not link to the Company's performance. Directors' other emoluments represent remuneration to executive directors for being executive personnel of the Group and performing executive management functions in day-to-day operations and their other emoluments are determined based on guideline for the remuneration of the executive personnel. The guideline is also included in the Company's upcoming Notice of 2019 Annual General Meeting for shareholders' consideration.

The guideline for the remuneration of executive personnel, which is considered an advisory guideline (non-binding) is as follows:

#### **(a) Fixed remuneration component**

For fixed elements which include non-performance-based fixed base salary and allowances, and contributions to retirement benefits schemes, these are assessed and determined by the complexity and responsibility of the position, with a view to attract, retain and motivate high performing individuals and in line with the prevailing market conditions and local market practice. No individual should determine his or her own fixed remuneration. Fixed remuneration to individual executive directors and executive personnel are reviewed annually by the Remuneration Committee and subject to the Board's approval.

#### **(b) Variable remuneration component**

For variable elements which include performance-based discretionary bonus, these are assessed and determined by the overall performance of the individual and contribution to the business strategy and objectives, as well as shareholders' values of the Company. No individual should determine his or her own variable remuneration. Variable remuneration to individual executive directors and executive personnel are reviewed annually by the Remuneration Committee and subject to the Board's approval.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

Since the dry bulk shipping industry is highly volatile and heavily influenced by external forces, it is inappropriate to link the performance-based variable remuneration solely to any financial measurable targets over a particular period or set an absolute limit to each remuneration component as it may generate meaningless results. The Board seeks to ensure appropriate balance amongst all performance factors in determination of variable remuneration component to executive personnel.

**This constitutes deviations from the Norwegian Code of Practice which states that members of the board of directors should not take on specific assignments for the company in addition to their appointment as a member of the board; remuneration of the board of directors should not be linked to the company's performance; and performance-based remuneration to executive personnel should be based upon measurable targets and quantifiable factors over which the employee in question can have influence and the performance related remuneration should be subject to an absolute limit.**

Currently, the Company has not adopted any share option scheme and no equity-based compensation arrangement is granted to any directors and executive personnel. For any special equity-based compensation arrangement that will be granted to eligible executive personnel in future, these compensation arrangement will be determined by the individual's contribution to the promotion of and enhancement of the long term value of the Company. This equity-based remuneration will be considered by the Board and be included as a separate binding resolution in the general meeting subject to the shareholders' approval.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

As mentioned in section 8, executive directors are performing executive personnel function, they received remuneration for additional duties as member of the Board. The Remuneration Committee has been established to assist the Board in developing and administering a fair procedure for determining on the specific remuneration packages of all executive directors and executive personnel of the Company. At the meeting held on 12 March 2019, the Remuneration Committee reviewed and made recommendations to the Board on the fees of the executive directors, other emoluments of the individual executive directors and executive personnel for the year 2018, and made recommendations to the Board on the remuneration packages of the individual executive directors and executive personnel for the year 2019 as well as fees for non-executive directors. Each component of remuneration to members of the Board are disclosed to the full board and approved by the Remuneration Committee and the Board. Details of the fees and other emoluments of the directors of the Company for the year 2018 are set out in note 11 to the consolidated financial statements in JST 2018 Annual Report.

### **Section 13 Information and communications**

Jinhui Shipping strives to promote efficient and non-discriminatory communication of information to market participants. In order to further promote effective communication, the Company maintains a website to disseminate information electronically on a timely basis.

### **Financial reporting**

The Board is responsible for the accounts and the presentation of the financial results to shareholders in general meetings. The Board reviews the Group's financial position and exposure in the Board meetings with the management every quarter. In such Board meetings, the management presents the Group's financial performance and the market situation to the Board where key profitability and financial ratios and any changes to the Group's strategies in response to changing market situation are discussed.



# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

The quarterly results announcements are released by the Company for each quarter of a financial year within two months subsequent to each quarter end. Annual report together with audited consolidated financial statements are usually adopted by the Board within four months subsequent to each financial year end and are distributed to shareholders of the Company no later than 21 days prior to the annual general meeting.

The consolidated financial statements have been prepared in accordance with IFRS, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by IASB, and HKFRS which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The Company emphasizes the production of accounts and financial reporting in which shareholders and other investors alike can have confidence. Details of the Group's significant accounting policies are set out in note 4 to the consolidated financial statements in JST 2018 Annual Report.

### **Other market information**

Jinhui Shipping has established guidelines for open communication of market information to market participants other than through general meeting. The Company also publishes major events such as annual general meeting, annual and quarterly reports, financial calendar, public presentations, and other material transactions through website of the Company at [www.jinhuiship.com](http://www.jinhuiship.com) and the NewsWeb of the Oslo Stock Exchange at [www.newsweb.no](http://www.newsweb.no).

### Section 14 Take-overs

**According to the Norwegian Code of Practice, the board of directors should establish guiding principles for how it will act in the event of a take-over bid. However, there is no provision in the Bye-Laws of the Company regulating the Board's competence in the event of a take-over bid.**

Nevertheless, the Board will adopt the provisions in the Norwegian Code of Practice as the guiding principles for how Company will act in the event of a take-over bid and will not attempt to influence, hinder or obstruct take-over bids for the Company's activities or shares.

In potential take-over situations, the Board will evaluate any offers that are commercially and financially beneficial to all shareholders of the Company, consider and arrange an independent valuation where the bidder is a major shareholder, and commit to act with extensive concern regarding representing the interest of all shareholders. The Board will follow the relevant rules and regulations as set out in the Norwegian Code of Practice in due course.

### Section 15 Auditor

The Board strives to have close and open cooperation with Grant Thornton Hong Kong Limited, the auditor of the Company. The Audit Committee obtains annual confirmation that the auditor satisfies the independence and objectivity requirements. The auditor submits an annual audit plan and presents the main features and scope of the planned work to the Audit Committee before commencement of annual audit. Also, the auditor has presented to the Audit Committee a review of the Company's internal control systems, including identified weaknesses and proposals for improvement. The Board particularly assesses whether the auditor exercises an adequate control function and the performance of the auditor has been reviewed.

The auditor participates in meetings of the Board that deal with the annual accounts. At these meetings, the auditor reviews the material changes in the Group's accounting principles and policies, identifies the significant risks and exposures of the Group, and comments on the Group's accounting and internal control systems during the course of audit. The auditor also attends the annual general meeting of the Company.

# Jinhui Shipping and Transportation Company Limited

## Corporate Governance Report 2018

*(Extracted from Annual Report 2018)*

The Board has issued guideline that regulate management's access to use the auditor of the Company for various services as follows:

Audit services – include audit services provided in connection with the audit of the financial statements.

Other services – include services that would normally be provided by auditor other than audit services, for example, audit of the Group's provident funds, tax compliance, due diligence and accounting advice related to merge and acquisition, internal control review of systems and / or processes, and issuance of special audit reports for tax or other purposes. The auditor is invited to undertake those services that it must or is best place to undertake in capacity as auditor.

Other specific services – include reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The auditor is also permitted to assist management with internal investigations and fact-finding into alleged improprieties, where appropriate and necessary. These services are subject to specific approval by the Audit Committee.

In the forthcoming general meeting, the Board will report the remuneration paid to auditor including the details of the fee paid for audit services and any fees paid for other specific assignments. In 2018, the remuneration paid and payable to the auditor of the Company for the provision of the Group's audit services and other services were US\$157,000 and US\$15,000 respectively. Fees paid for other services mainly included fees for tax compliance services of US\$5,000 and review of internal control systems of US\$3,000. The auditor's remuneration excluded VAT as the external auditor performed its services in Hong Kong, where no VAT being imposed.