

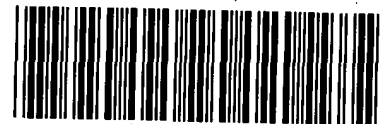
# **GRAIG MCI LTD**

## **Annual Report and Consolidated Financial Statements**

**For the year ended 31 December 2015**

Registered number: 07281907

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# **REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2015**

<b>CONTENTS</b>	<b>Page</b>
Officers and professional advisers	1
Group strategic report	2
Directors' report	4
Directors' responsibilities statement	5
Independent auditor's report	6
Consolidated profit and loss account	7
Consolidated balance sheet	8
Consolidated statement of changes in equity	9
Company balance sheet	10
Company statement of changes in equity	11
Consolidated cash flow statement	12
Notes to the consolidated cash flow statement	12
Notes to the financial statements	13

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

H G Williams

C L Williams

M Ras (appointed 21 September 2015)

L C Visser (appointed 21 September 2015)

### **SECRETARY**

C J G Davies

### **REGISTERED OFFICE**

1 Caspian Point

Caspian Way

Cardiff

CF10 4DQ

### **BANKERS**

ABN Amro Bank N.V.

Rotterdam

The Netherlands

Nordea Bank Finland Plc

London

### **SOLICITORS**

Eversheds LLP

Newcastle-upon-Tyne

### **AUDITOR**

Deloitte LLP

Cardiff

## GROUP STRATEGIC REPORT

The directors, in preparing this Group Strategic Report, have complied with s414C of the Companies Act 2006.

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The company's principal activity is that of a holding company for the Graig MCI group. The group's principal activities are ship owning and operating. The vessels owned by the group operate under the ship chartering management of Lauritzen Bulkcarriers A/S, Copenhagen, Denmark. Freight income is recorded as a net share of pool earnings.

The audited financial statements for the year are set out in the attached pages. The loss after taxation for the financial year amounted to \$2.9m (2014 – \$1.3m) which has been transferred from reserves.

The shipping market continues to be volatile with difficult trading through most sectors. Losses have been incurred from vessel trading. However, there is every expectation of an upturn in the dry bulk market and the trading of the group-owned vessels is expected to improve.

Details of amounts owed by and to the parent company and other group companies are shown in notes 11 and 12 to the financial statements.

### KEY PERFORMANCE INDICATORS

The main indicators for the group are turnover and profit. Turnover has decreased from \$6.5m to \$4.9m and, as stated above, the loss after tax has increased from \$1.3m to \$2.9m. Further KPIs are also considered for an understanding of the development, performance and position of the business. These include benchmarked earnings against recognised trading index and vessel expenses to budget comparison.

Although vessel earnings have been on average above the BHSI (handysize dry bulk index) earnings have been below breakeven through the year. However, an uplift in earnings is now being seen in 2016 and together with a negotiated reduction in debt repayment costs a reduced loss with cash surpluses is anticipated in 2016. Vessel operating costs have been consistently below budget and this is expected to continue. Vessel off hires and lost days are significantly favourable to budget.

Minimum cash covenants and vessel loan to value ratios have been renegotiated with ABN Amro Bank N.V. in February 2016 and we are fully compliant with these covenants at the date of approval of these financial statements.

### ENVIRONMENT

The Graig MCI group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. The company manages its ships in compliance with the international code for ship operation and pollution prevention which requires that the vessels be operated in such a way as to avoid damage to the environment through, as a minimum, garbage management, ballast water management and the prevention of air pollution from ships.

The new handysize dry bulk carrier vessels have been constructed with a clear focus on environmental issues with a double hull structure, low-emission machinery and, to minimise the risk of heavy fuel oil spill, all heavy oil is stored in coffered tanks in the engine room.

### GOING CONCERN

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out above. The financial position of the group, its cash flows, liquidity position and borrowing facilities, are as set out in the attached financial statements. In addition, the principal risks and uncertainties section, below, details the policies and processes in place to manage financial risk and operational risk.

As stated previously, the group incurred a loss for the financial year of \$2.6m. However, the company has net current assets of \$0.8m at 31 December 2015. In 2015 the group's shareholders have injected further equity of \$1,000,000.

There is no reliance on any major suppliers or customers and there is no significant reliance on external borrowings other than standard vessel mortgage arrangements. The bank loan includes financial covenants such as loan to value covenants. These covenants were recently renegotiated and no breaches are forecast in the next 12 months. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have an expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

## GROUP STRATEGIC REPORT (continued)

### PRINCIPAL RISKS AND UNCERTAINTIES

The group accepts that the business of shipping involves potential volatility in both vessel earnings and values. The group manages this by securing income from recognised commercial managers and charterers and consistently monitoring industry developments when developing its business strategy model. The group also minimises equity exposure to vessel ownership by restricting the number of vessels owned within the group, and applies a risk management policy to operational risks. Regular meetings ensure that risks are identified and mitigated from a team of people who have both in-depth industry knowledge and worldwide market exposure.

The majority of the group's activities are in US dollars, including all of its sales and the majority of the costs. The main ship-trading contracts and agreements are made with US dollars as the base currency. For the reasons summarised above, the directors consider the functional currency of the group to be US dollars.

Interest rate exposure is minimised through various fixing arrangements against the ABN Amro vessel loans. As such, interest rate exposure is not a risk that is significant for the group at the balance sheet date.

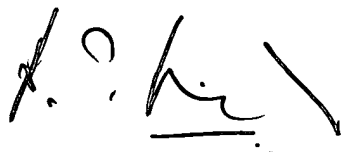
### POST BALANCE SHEET EVENTS

Subsequent to the year-end, the company entered a renegotiation of loan covenants with ABN AMRO Bank and on 17 February 2016 a Supplemental Agreement was executed between the company and the bank. This agreement has resulted in a significant relaxation of loan covenants and an extension of the loan facility from 5 October 2016 to 31 December 2017. As part of this agreement the company received a \$500,000 loan from existing shareholders and passed these funds to Graig Cardiff Shipping Ltd and Graig Rotterdam Shipping Ltd as further intercompany loans in equal amounts. Shareholders also committed to further loans of \$325,000 to fund the Graig Cardiff dry docking (July 2017) and a further \$325,000 to fund the Graig Rotterdam dry docking (October 2017).

From 1 April 2016 the two vessels Graig Cardiff and Graig Rotterdam exited the Lauritzen dry bulk pool and transferred to an index-linked time charter arrangement with Lauritzen Bulk. This has had a positive impact on vessel earnings to date.

### APPROVAL

This report was approved by the Board of Directors on **22** June 2016 and signed on its behalf by:



H G Williams  
Director

## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2015.

### DIVIDENDS

No dividend could be paid to the shareholders during the year (2014 - \$nil).

### DIRECTORS

The directors of the company, who served during the financial year and subsequently unless otherwise stated, are as shown on page 1. On 6 February 2015 Raymond Ko resigned as a director and Willem Brunia was appointed a director. Willem Brunia and Pieter Braakenburg resigned as directors on 21 September 2015.

### AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to continue in office as the company's auditor and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



C J G Davies  
Secretary

22 June 2016

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAIG MCI LTD**

We have audited the financial statements of Graig MCI Ltd for the year ended 31 December 2015 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statements of Changes in Equity, the notes to the Consolidated Cash Flow Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

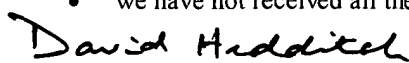
## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**David Hedditch (Senior statutory auditor)**

**for and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

Cardiff, United Kingdom

**23** June 2016



**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 2015

	Note	2015 \$	2014 \$
<b>Turnover</b>	3	4,885,274	6,499,327
Cost of sales		<u>(5,713,733)</u>	<u>(5,915,429)</u>
<b>Gross (loss)/profit</b>		(828,459)	583,898
Administrative expenses		<u>(202,424)</u>	<u>(262,063)</u>
<b>Operating (loss)/ profit</b>		(1,030,883)	321,835
Interest payable and similar charges	6	<u>(1,844,896)</u>	<u>(1,612,127)</u>
<b>Loss on ordinary activities before taxation</b>	5	(2,875,779)	(1,290,292)
Tax on loss on ordinary activities	7	<u>(12,410)</u>	<u>(12,268)</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u><u>(2,888,189)</u></u>	<u><u>(1,302,560)</u></u>

All activities relate to continuing operations.

There have been no recognised gains and losses for the current or the prior year other than as stated in the profit and loss account and, accordingly, no separate statement of other comprehensive income is presented.

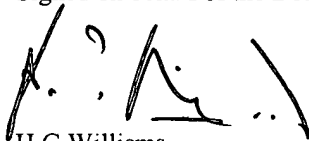
**CONSOLIDATED BALANCE SHEET**

As at 31 December 2015

	Note	\$	2015 \$	\$	2014 \$
<b>FIXED ASSETS</b>					
Tangible assets	8		47,934,558		49,979,163
<b>CURRENT ASSETS</b>					
Stocks	10	127,966		157,615	
Debtors	11	527,871		502,173	
Cash at bank and in hand		1,086,571		1,465,071	
		<u>1,742,408</u>		<u>2,124,859</u>	
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(971,097)</u>		<u>(1,609,772)</u>	
<b>NET CURRENT ASSETS</b>			<u>771,311</u>		<u>515,087</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			48,705,869		50,494,250
<b>CREDITORS: amounts falling due after more than one year</b>	13		<u>(28,658,650)</u>		<u>(28,558,842)</u>
<b>NET ASSETS</b>			<u>20,047,219</u>		<u>21,935,408</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16	27,900,000		26,900,000	
Profit and loss account		<u>(7,852,781)</u>		<u>(4,964,592)</u>	
<b>SHAREHOLDERS' FUNDS</b>			<u>20,047,219</u>		<u>21,935,408</u>

The financial statements of Graig MCI Ltd, registered number 07281907, were approved by the Board of Directors and authorised for issue on **22** June 2016.

Signed on behalf of the Board of Directors



H G Williams  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

As at 31 December 2015

	<b>Called- up share capital \$</b>	<b>Profit and loss account \$</b>	<b>Total \$</b>
<b>At 31 December 2013 as previously stated</b>	26,000,000	(3,306,938)	22,693,062
Changes on transition to FRS 102 (see note 22)	-	(355,094)	(355,094)
<b>At 1 January 2014 as restated</b>	26,000,000	(3,662,032)	22,337,968
Loss for the financial year	-	(1,302,560)	(1,302,560)
Issue of share capital	900,000	-	900,000
<b>At 31 December 2014</b>	26,900,000	(4,964,592)	21,935,408
Loss for the financial year	-	(2,888,189)	(2,888,189)
Issue of share capital	1,000,000	-	1,000,000
<b>At 31 December 2015</b>	<u>27,900,000</u>	<u>(7,852,781)</u>	<u>20,047,219</u>

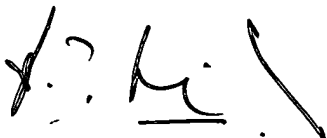
**COMPANY BALANCE SHEET**

As at 31 December 2015

	Note	\$	2015 \$	\$	2014 \$
<b>FIXED ASSETS</b>					
Investments	9		19,850,290		21,729,151
<b>CURRENT ASSETS</b>					
Debtors	11	217,069		210,222	
Cash at bank and in hand		1,118		14,743	
		<u>218,187</u>		<u>224,965</u>	
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(21,258)</u>		<u>(18,708)</u>	
<b>NET CURRENT ASSETS</b>			<u>196,929</u>		<u>206,257</u>
<b>NET ASSETS</b>			<u>20,047,219</u>		<u>21,935,408</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16		27,900,000		26,900,000
Profit and loss account			<u>(7,852,781)</u>		<u>(4,964,592)</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>20,047,219</u>		<u>21,935,408</u>

The financial statements of Graig MCI Ltd, registered number 07281907, were approved by the Board of Directors and authorised for issue on **22** June 2016.

Signed on behalf of the Board of Directors



H G Williams  
Director

**COMPANY STATEMENT OF CHANGES IN EQUITY**

As at 31 December 2015

	<b>Called- up share capital \$</b>	<b>Profit and loss account \$</b>	<b>Total \$</b>
<b>At 31 December 2013 as previously stated</b>	26,000,000	(3,306,938)	22,693,062
Changes on transition to FRS 102 (see note 22)	-	(355,094)	(355,094)
<b>At 1 January 2014 as restated</b>	26,000,000	(3,662,032)	22,337,968
Loss for the financial year	-	(1,302,560)	(1,302,560)
Issue of share capital	900,000	-	900,000
<b>At 31 December 2014</b>	26,900,000	(4,964,592)	21,935,408
Loss for the financial year	-	(2,888,189)	(2,888,189)
Issue of share capital	1,000,000	-	1,000,000
<b>At 31 December 2015</b>	27,900,000	(7,852,781)	20,047,219

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 December 2015

	Note	\$	2015 \$	2014 \$
Net cash inflow from operating activities	(a)		1,052,257	2,177,920
Returns on investments and servicing of finance				
Interest paid		(1,347,766)	(1,435,721)	
Net cash outflow from returns on investments and servicing of finance			(1,347,766)	(1,435,721)
Taxation				
Corporation tax			(12,268)	(11,650)
Cash (outflow)/inflow before financing			(307,777)	730,549
Financing				
Issue of shares		1,000,000	900,000	
Repayment of bank loan		(1,070,723)	(1,689,324)	
Net cash outflow from financing			(70,723)	(789,324)
Decrease in cash in the year			(378,500)	(58,775)
Cash and cash equivalents at beginning of year			1,465,071	1,523,846
Cash and cash equivalents at end of year			1,086,571	1,465,071
Reconciliation to cash at bank and in hand:				
Cash at bank and in hand			1,086,571	1,465,071
Cash equivalents			-	-
			1,086,571	1,465,071

**a) RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2015 \$	2014 \$
Operating (loss)/profit	(1,030,883)	321,835
Depreciation	2,044,605	2,044,605
Decrease in stocks	29,649	92,893
Increase in debtors	(25,698)	(164,193)
Increase/(decrease) in creditors	34,584	(117,220)
Net cash inflow from operating activities	1,052,257	2,177,920

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

#### General information and basis of accounting

Graig MCI Ltd. is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 22.

The functional currency of MCI Limited is considered to be US dollars because that is the currency of the primary economic environment in which the company operates. The consolidated financial statements are also presented in US dollars. Foreign operations are included in accordance with the policies set out below.

Graig MCI Ltd. meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

#### Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the consolidated. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition. More information can be found in note 22 to these financial statements.

#### Going concern

The financial statements have been prepared under the going concern basis as discussed in the strategic report.

#### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. The capital cost of vessels includes supervision and other pre-delivery costs during building or major modification together with any interest payable during the construction and pre-delivery period. Dry-docking expenditure is also included in the cost of vessels.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Vessels	-	25 years
Dry-docking expenditure	-	3-5 years

Depreciation is charged from the date vessels first enter operational service.

#### Impairment

The company reviews all fixed assets for impairment whenever events or circumstances indicate that the carrying value of the assets may not be fully recoverable based upon estimated cash flows. Provision for impairment in the value of the fixed assets is made in the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 1. ACCOUNTING POLICIES (continued)

#### Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate of the carrying amount. Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the costs of those assets as noted above.

#### Investments

Fixed asset investments are shown at cost less provision for impairment. Investments are stated at cost.

#### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

#### Stocks

Stocks are stated at the lower of cost and net realisable value.

#### Foreign currency

Transactions denominated in foreign currencies are translated into US dollars at the exchange rate ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the profit and loss account.

The financial statements of the foreign subsidiaries are translated into US dollars at the closing rate of exchange and the difference arising from the translation of the opening net investment in the subsidiary at the closing rate is taken directly to reserves.

#### Derivative financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### *Derivative financial instruments*

The company uses derivative financial instruments to reduce exposure to interest rate movements. The company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. ACCOUNTING POLICIES (continued)

### Derivative financial instruments (continued)

#### *Fair value measurement*

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

#### **Turnover**

Turnover represents amounts derived from the provision of goods and services which fall within the group's ordinary activities after deduction of value added tax.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements to conform to generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

### **Judgements**

#### *Depreciation of vessels*

The directors have adopted a policy of depreciating vessels over a period of 25 years, which represents the estimated, economic life of the asset. Whilst it is not possible to determine the exact life of these assets, the director's apply rates which are appropriate and consistent with past experience and industry expectations.

#### *Impairment of fixed assets*

Whilst there has been a decline in vessel earnings, the directors expect an upturn in vessel income and anticipate that the carrying value of vessels (note 8) will be fully recoverable from future earnings.

## 3. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of value added tax. Turnover is recognised in the United Kingdom and generated in line with vessel operating services provided to worldwide customers.

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors were the only employees of the company during the current and the prior financial year. They received no remuneration in respect of services provided to the company during either year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2015 \$	2014 \$
<b>The loss on ordinary activities before taxation is after charging</b>		
Depreciation of tangible fixed assets - owned assets	2,044,605	2,044,605
Audit fees	<u>21,258</u>	<u>18,456</u>
<i>Auditor's remuneration:</i>		
Fees payable to the company's auditor for the audit of the company's annual accounts	8,858	7,694
Audit of financial statements of subsidiaries pursuant to legislation	<u>12,400</u>	<u>10,762</u>
Total audit fees	<u>21,258</u>	<u>18,456</u>

## 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 \$	2014 \$
Bank loans	1,485,641	1,278,841
Interest on swap agreements	34,106	51,970
Deferred finance costs	<u>325,149</u>	<u>281,316</u>
	<u>1,844,896</u>	<u>1,612,127</u>

## 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2015 \$	2014 \$
<b>Current taxation</b>		
United Kingdom corporation tax:		
Current tax on loss for the year	<u>12,410</u>	<u>12,268</u>
<b>Total current tax</b>	<u>12,410</u>	<u>12,268</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

The difference between current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	\$	\$
Loss on ordinary activities before tax	(2,875,779)	(1,290,292)
Tax on loss on ordinary activities before tax at 20% (2014 – 20%)	(575,156)	(258,058)
<b>Factors affecting charge for the year</b>		
Expenses not deductible for tax	599,415	282,681
Income not taxable	(26,148)	(26,430)
Tax losses carried forward	1,889	1,807
Tonnage tax adjustment	12,410	12,268
<b>Current tax charge for the year</b>	<u>12,410</u>	<u>12,268</u>

The company has a potential deferred tax asset of \$128,496 (2014 - \$140,867) in relation to trading losses. The potential tax asset has not been recognised on the basis that there is insufficient certainty of this asset reversing in the foreseeable future.

### 8. TANGIBLE FIXED ASSETS

The Group	Vessels \$	Dry- docking \$	Total \$
<b>Cost</b>			
At 1 January 2015 and 31 December 2015	53,588,309	1,140,000	54,728,309
<b>Accumulated depreciation</b>			
At 1 January 2015	4,219,437	529,709	4,749,146
Charge for the year	1,816,605	228,000	2,044,605
At 31 December 2015	6,036,042	757,709	6,793,751
<b>Net book value</b>			
At 31 December 2015	<u>47,552,267</u>	<u>382,291</u>	<u>47,934,558</u>
At 31 December 2014	<u>49,368,872</u>	<u>610,291</u>	<u>49,979,163</u>

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to \$292,366 (2014 - \$292,366).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 9. INVESTMENTS

	<u>The Company</u>	
	<u>2015</u>	<u>2014</u>
	\$	\$
<b>Investments held as fixed assets</b>		
Shares in group companies (note 18)	19,850,290	25,902,000
<b>Shares in group companies</b>		
At 1 January 2015		25,902,000
New shares issued		1,000,000
Impairment		(7,051,710)
At 31 December 2015		19,850,290

The impairment of \$7,051,710 is in respect of cumulative losses incurred in Graig Cardiff Shipping Ltd and Graig Rotterdam Shipping Ltd.

## 10. STOCKS

	<u>2015</u>	<u>2014</u>
	\$	\$
<b>Group</b>		
Vessel lubricating oils and spares	127,966	157,615

## 11. DEBTORS

	<u>The Group</u>		<u>The Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$	\$
<i>Amounts falling due within one year</i>				
Trade debtors	336,777	302,854	-	-
Amount owed by parent company	498	14,333	498	498
Amount owed by associated company	6,264	1,191	-	-
Amount owed by group undertakings	-	-	216,571	209,724
Other debtors	23,184	20,794	-	-
Prepayments and accrued income	161,148	163,001	-	-
	<u>527,871</u>	<u>502,173</u>	<u>217,069</u>	<u>210,222</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	2015	2014	2015	2014
	\$	\$	\$	\$
Bank loan (see note 13)	-	781,790	-	-
Trade creditors	124,360	264,674	-	-
Amounts owed to parent company	36,708	-	-	-
Amounts owed to group undertakings	2,907	7,477	-	-
Corporation tax	12,410	12,268	-	-
Derivative financial liabilities	92,206	-	-	-
Other creditors	51,492	41,523	-	-
Accruals and deferred income	651,014	502,040	21,258	18,708
	<u>971,097</u>	<u>1,609,772</u>	<u>21,258</u>	<u>18,708</u>

The bank loan is in respect of two vessels which were delivered in 2012 and is stated net of deferred finance costs of \$nil (2014 - \$281,316).

## 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group		The Company	
	2015	2014	2015	2014
	\$	\$	\$	\$
Bank loan	28,658,650	28,335,900	-	-
Derivative financial liabilities	-	222,942	-	-
	<u>28,658,650</u>	<u>28,558,842</u>	<u>-</u>	<u>-</u>

The bank loan is in respect of amounts drawn down from a loan facility of \$33,786,480 relating to two vessels delivered in 2012 and is stated net of deferred finance costs of \$270,333 (2014 - \$445,480). These costs will be allocated to the profit and loss account over the term of the loan. The loan is secured by a mortgage on the vessels.

Borrowings are repayable as follows:

	2015	2014
	\$	\$
<b>Bank loan</b>		
<b>The Group</b>		
Within one year	-	1,063,106
Between one and two years	28,928,983	28,500,064
Unamortised finance costs	(270,333)	(445,480)
	<u>28,658,650</u>	<u>29,117,690</u>

On 17 February 2016, the two vessel-owning companies, Graig Cardiff Shipping Ltd and Graig Rotterdam Shipping Ltd, entered into a Supplemental Agreement which extended the loan facility from 6 October 2016 to 31 December 2017. The loan of \$28,928,983 is split into a senior loan of \$21,500,000 (with interest payable quarterly at LIBOR plus a margin of 3.75%) and a junior loan of \$7,428,983 (with interest accruing at 8% and payable on 31 December 2017). In 2015 the companies repaid \$1,063,106 of the senior loan and \$7,554 of the junior loan. There are no further repayments due on either the senior or junior loan until 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 14. FINANCIAL INSTRUMENTS

The carrying values of the consolidated financial assets and liabilities are summarised by category below:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and bank balances	1,086,571	1,465,071
Measured at undiscounted amount receivable		
• Trade and other debtors (see note 11)	359,961	323,648
• Amounts due from associates (see note 11)	6,762	15,524
	<u>1,453,294</u>	<u>1,804,243</u>
<b>Financial liabilities</b>		
Measured at fair value through profit and loss		
• Derivative financial liabilities (see note 15)	92,206	222,942
Measured at amortised cost		
• Loans payable (see note 12, 13)	28,658,650	29,117,690
Measured at undiscounted amount payable		
• Trade and other creditors (see note 12)	175,852	306,197
• Amounts owed to associates (see note 12)	39,615	7,477
	<u>28,966,323</u>	<u>29,654,306</u>

The company's income, expense, gains and losses in respect of financial instruments are summarised below:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Fair value gains and losses</b>		
On derivative financial liabilities measured at fair value through Profit and loss (see note 15)	(130,736)	(132,152)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 15. DERIVATIVE FINANCIAL INSTRUMENTS

#### *Interest rate swap contracts*

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

Outstanding receive floating pay fixed contracts:

	Average contract fixed interest rate		Notional principal value		Fair value	
	2015 %	2014 %	2015 \$	2014 \$	2015 \$	2014 \$
Less than one year	1.65%	-	11,479,014	-	(92,206)	-
One to two years	-	1.65%	-	12,401,177	-	(222,942)
			<u>11,479,014</u>	<u>12,401,177</u>	<u>(92,206)</u>	<u>(222,942)</u>

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' USD LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

### 16. CALLED UP SHARE CAPITAL AND RESERVES

	The Group and the Company	
	2015 \$	2014 \$
<b>Allotted and fully paid</b>		
27,900,000 ordinary shares (2014 – 26,900,000) of \$1 each	<u>27,900,000</u>	<u>26,900,000</u>

During the year 1,000,000 additional shares were issued at par value and fully paid up.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

### 17. RESULT OF PARENT COMPANY

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the year amounted to \$2,888,189 (2014 - \$1,302,560).

### 18. ADDITIONAL INFORMATION ON SUBSIDIARIES

Name of company	Class	% owned	Country of incorporation	Principal activity
Graig Cardiff Shipping Ltd	Ordinary	100	United Kingdom	Ship ownership and operating
Graig Rotterdam Shipping Ltd	Ordinary	100	United Kingdom	Ship ownership and operating

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 19. RELATED PARTY TRANSACTIONS

Under Section 33 of FRS 102 'Related Party Disclosure', the company is not required to disclose transactions with entities which are wholly-owned by the group.

Graig Shipping Plc (GS) provides management and accounting services to Graig MCI Ltd and its subsidiary companies. During the financial year to 31 December 2015, GS had invoiced \$71,136 (2014 - \$73,324) in respect of management and accounting services. At 31 December 2015 \$36,210 was owed to GS (2014 - \$14,333 owed by GS) to Graig MCI Ltd and its subsidiaries (see notes 11 and 12).

Graig Ship Management Limited (GSM), a wholly-owned subsidiary of Graig Shipping Plc, carries out technical management and commercial support of two vessels owned by Graig Cardiff Shipping Ltd (GCS) and Graig Rotterdam Shipping Ltd (GRS). During the financial year GSM had invoiced \$314,660 in respect of technical management fees and commercial support (2014 - \$291,310). At 31 December 2015 \$3,357 was owed to GSM (2014 - \$1,191 owed by GSM) (see notes 11 and 12).

Graig MCI Ltd and its wholly-owned subsidiaries are considered as related parties as Graig Shipping Plc owns 50.1% of the issued share capital of Graig MCI Ltd.

### 20. FOREIGN CURRENCIES

The principal rate of exchange used for translation of foreign currencies to United States dollars at the year-end is as follows:

	2015	2014
£ sterling/United States dollar	<u>1.476</u>	<u>1.559</u>

### 21. ULTIMATE PARENT COMPANY

The directors consider Idwal Williams and Company Limited, a company incorporated in the United Kingdom and registered in England and Wales, as the company's ultimate parent company and controlling party.

The immediate parent company is Graig Shipping Plc, a company incorporated in Great Britain and registered in England and Wales.

Copies of the financial statements of Idwal Williams and Company Limited and Graig Shipping Plc are available from Companies House, Crown Way, Maindy, Cardiff.

### 22. EXPLANATION OF TRANSITION TO FRS 102

This is the first year that the company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 22. EXPLANATION OF TRANSITION TO FRS 102 (continued)

#### Reconciliation of equity

	Note	Group		Company	
		At 1 January 2014 \$	At 31 December 2014 \$	At 1 January 2014 \$	At 31 December 2014 \$
Equity reported under previous UK GAAP		22,693,062	22,158,350	22,693,062	22,158,350
<b>Adjustments to equity on transition to FRS 102:</b>					
Recognition of derivative financial instruments	(a)	(355,094)	(222,942)	(355,094)	(222,942)
Equity reported under FRS 102		<u>22,337,968</u>	<u>21,935,408</u>	<u>22,337,968</u>	<u>21,935,408</u>

#### Notes to the reconciliation of equity at 1 January 2014

##### (a) Recognition of derivative financial instruments

The company was not previously required to recognise derivative financial instruments on the balance sheet. Instead the effects of derivative financial instruments were recognised in the profit or loss on settlement.

Under FRS 102, derivative financial instruments classified as other financial instruments are recognised as a financial asset or a financial liability, at fair value, when an entity becomes party to the contractual provisions of the instrument.

On adoption of the requirements of FRS 102, financial liabilities of \$355,094 have been recognised on the balance sheet at the date of transition, 1 January 2014. At 31 December 2014, the fair values of the financial liabilities were \$222,942.

Reconciliation of loss for 2014	Group	Company
	Year ended 31 December 2014 \$	Year ended 31 December 2014 \$
As reported under previous UK GAAP	(1,434,712)	(1,434,712)
Adjustments to equity on transition to FRS 102		
Recognition of derivative financial instruments	132,152	132,152
As reported under previous FRS 102	<u>(1,302,560)</u>	<u>(1,302,560)</u>