# Gulf Navigation Holding PJSC

# Condensed consolidated interim financial information for the three month period ended 31 March 2014

**Gulf Navigation Holding PJSC**

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# Report on review of condensed consolidated interim financial information to the shareholders of Gulf Navigation Holding PJSC

## Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Gulf Navigation Holding PJSC ("the Company") and its subsidiaries (collectively referred to as 'the Group') as of 31 March 2014 and the related condensed consolidated interim income statement and condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard ("IAS") 34: 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34: 'Interim Financial Reporting'.

## Emphasis of matter

We draw attention to Note 2 to the condensed consolidated interim financial information, which states that as of 31 March 2014, the Group had accumulated losses of AED 1,404.8 million and a net current liability position of AED 695.4 million. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our conclusion is not qualified in respect of this matter.

PricewaterhouseCoopers
30 April 2014

Paul Suddaby

Paul Suddaby
Registered Auditor Number 309
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# Gulf Navigation Holding PJSC

## Condensed consolidated interim balance sheet

| | Note | At 31 Mar 14 (Unaudited) AED'000 | At 31 Dec 13 (Audited) AED'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Vessels, property and equipment | 5 | 713,216 | 717,385 |
| Goodwill | 6 | 135,999 | 135,999 |
| Investment in joint ventures | | 103,802 | 103,120 |
| Due from a related party | 11 | 25,631 | 25,631 |
| | | 978,648 | 982,135 |
| **Current assets** | | | |
| Inventories | | 7,622 | 6,341 |
| Due from related parties | 11 | 6,763 | 6,126 |
| Trade and other receivables | 7 | 29,140 | 28,315 |
| Term deposit | | 127 | 127 |
| Cash and cash equivalents | | 16,092 | 33,201 |
| | | 59,744 | 74,110 |
| Assets of a disposal group classified as held for sale | 8 | - | 368,200 |
| | | 59,744 | 442,310 |
| **Total assets** | | 1,038,392 | 1,424,445 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the Group** | | | |
| Share capital | | 1,655,000 | 1,655,000 |
| Statutory reserve | | 31,546 | 31,546 |
| Accumulated losses | | (1,404,810) | (1,405,349) |
| **Total equity** | | 281,736 | 281,197 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | | 1,521 | 1,377 |
| | | 1,521 | 1,377 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 230,026 | 272,952 |
| Due to related parties | 11 | 16,132 | 14,718 |
| Loan from related parties | 11 | 10,980 | 10,980 |
| Borrowings | 10 | 497,997 | 843,221 |
| | | 755,135 | 1,141,871 |
| **Total liabilities** | | 756,656 | 1,143,248 |
| **Total equity and liabilities** | | 1,038,392 | 1,424,445 |

The condensed consolidated interim financial information was approved by the Board of Directors on 26 April 2014 and signed on its behalf by:

..............................
Hazza Baker Al Qahtani
Chairman

## Gulf Navigation Holding PJSC

## Condensed consolidated interim income statement for the three month period ended 31 March 2014

| | Note | Three months ended 31 Mar 14 (Unaudited) AED'000 | 31 Mar 13 (Unaudited) AED'000 |
|---|---|---|---|
| Operating revenue | 12 | 30,865 | 38,077 |
| Voyage related direct costs | 13 | (91) | (527) |
| Other operating costs | 14 | (22,528) | (37,735) |
| **Gross profit/(loss)** | | 8,246 | (185) |
| Other income | | 499 | 865 |
| General and administrative expenses | 15 | (4,714) | (4,544) |
| **Operating profit/(loss) for the period** | | 4,031 | (3,864) |
| Finance income | | 428 | 433 |
| Finance costs | 17 | (4,602) | (14,560) |
| Finance costs - net | | (4,174) | (14,127) |
| Share of profit/(loss) in joint ventures - net | | 682 | (1,635) |
| **Profit/(loss) for the period** | | 539 | (19,626) |
| **Earnings/(loss) per share** | | | |
| - Basic and diluted (AED) | 18 | 0.0003 | (0.0119) |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial information.

## Gulf Navigation Holding PJSC

## Condensed consolidated interim statement of comprehensive income for the three month period ended 31 March 2014

| | Three months ended | |
|---|---|---|
| | 31 Mar 14 (Unaudited) AED'000 | 31 Mar 13 (Unaudited) AED'000 |
| **Profit/(loss) for the period** | 539 | (19,626) |
| **Other comprehensive income:** | | |
| **Items that may be subsequently reclassified to income statement** | | |
| Effective portion of change in fair value of interest rate swap hedges | - | 12,679 |
| **Reclassification to income statement** | | |
| Interest rate swap hedge reserve recycled to consolidated income statement | - | (5,935) |
| **Other comprehensive income for the period** | - | 6,744 |
| **Total comprehensive income/(loss) for the period** | 539 | (12,882) |

## Gulf Navigation Holding PJSC

## Condensed consolidated interim statement of changes in equity for the three month period ended 31 March 2014

| | Share capital AED'000 | Statutory reserve AED'000 | Hedging reserve for interest rate swaps AED'000 | Accumulated (losses) AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2013 | 1,655,000 | 31,546 | (29,148) | (477,672) | 1,179,726 |
| **Comprehensive income** | | | | | |
| Loss for the period | - | - | - | (19,626) | (19,626) |
| *Other comprehensive income* | | | | | |
| Hedge reserve | - | - | 6,744 | - | 6,744 |
| Total comprehensive income/(loss) for the period | - | - | 6,744 | (19,626) | (12,882) |
| **Balance at 31 March 2013 (unaudited)** | 1,655,000 | 31,546 | (22,404) | (497,298) | 1,166,844 |
| Balance at 1 January 2014 | 1,655,000 | 31,546 | - | (1,405,349) | 281,197 |
| **Comprehensive income** | | | | | |
| Profit for the period | - | - | - | 539 | 539 |
| *Other comprehensive income* | | | | | |
| Hedge reserve | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | 539 | 539 |
| **Balance at 31 March 2014 (unaudited)** | 1,655,000 | 31,546 | - | (1,404,810) | 281,736 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial information.

## Gulf Navigation Holding PJSC

## Condensed consolidated interim statement of cash flows for the three month period ended 31 March 2014

| | Note | Three months ended 31 Mar 14 (Unaudited) AED'000 | Three months ended 31 Mar 13 (Unaudited) AED'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) for the period | | 539 | (19,626) |
| Adjustments for: | | | |
| Depreciation | | 8,558 | 15,889 |
| Share of (profit)/loss in joint ventures - net | | (682) | 1,635 |
| Reversal of provision for impairment of trade receivables | 7, 15 | (9) | (35) |
| Profit on sale of fixed assets | | - | (242) |
| Provision for employees' end of service benefits | 16 | 225 | 75 |
| Finance income | | (428) | (433) |
| Finance costs | 17 | 4,602 | 14,560 |
| Operating profit before working capital changes and payment of employees end of service benefits | | 12,805 | 11,823 |
| Employees end of service benefits paid | | (81) | (162) |
| Changes in working capital: | | | |
| Inventories | | (1,281) | (553) |
| Trade and other receivables before movement in provision for impairment of trade receivables | | (816) | 697 |
| Trade and other payables | | 3,649 | 6,228 |
| Due to related parties | | 1,414 | 846 |
| Due from related parties before interest receivable | | (212) | 80 |
| Net cash provided from operating activities | | 15,478 | 18,959 |
| **Investing activities** | | | |
| Proceeds from sale of asset held for sale | 8 | 368,200 | - |
| Interest received | | 3 | 8 |
| Purchase of vessels and equipment | | (4,389) | (3) |
| Proceeds from sale of a fixed asset | | - | 7,320 |
| Withdrawal of term deposit | | - | 25,800 |
| Net cash provided from investing activities | | 363,814 | 33,125 |
| **Financing activities** | | | |
| Repayment of borrowings | 10 | (377,534) | (46,577) |
| Interest paid | | (18,867) | (11,737) |
| Net cash used in financing activities | | (396,401) | (58,314) |
| **Net decrease in cash and cash equivalents** | | (17,109) | (6,230) |
| Cash and cash equivalents at beginning of the period | | 33,201 | 50,215 |
| **Cash and cash equivalents at end of the period** | | 16,092 | 43,985 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial information.

## Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2014

### 1 Reporting entity

Gulf Navigation Holding PJSC ("the Company" or "the Parent Company") was incorporated on 30 October 2006 as a Public Joint Stock Company in accordance with UAE Federal Law No. 8 of 1984 (as amended). The Company is primarily engaged in marine transportation of commodities, chartering vessels, ship agency, marine transport under special passenger and merchant contracts, clearing and forwarding services and container loading, unloading, discharging and packaging services through its subsidiaries as listed below. The Company is operated from 32nd Floor, Suite number 3201, Saba Tower-1, Jumeirah Lake Towers, Dubai, United Arab Emirates.

The Company and its following directly or indirectly wholly owned subsidiaries are referred to as "the Group" in the condensed consolidated interim financial information:

| ***Subsidiaries*** | ***Country of incorporation*** |
|---|---|
| Gulf Navigation Group FZCO | United Arab Emirates |
| Gulf Navigation Ship Management FZE | United Arab Emirates |
| Gulf Ship FZE | United Arab Emirates |
| Gulf Crude Carriers LLC | United Arab Emirates |
| Gulf Chemical Carriers LLC | United Arab Emirates |
| Lam Gulf Maritime Co LLC | United Arab Emirates |
| Gulf Navigation and Brokerage LLC | Oman |
| Gulf Eyadah Corporation | Panama |
| Gulf Huwaylat Corporation | Panama |
| Gulf Deffi Corporation | Panama |
| Gulf Jalmuda Corporation | Panama |
| Gulf Fanatir Corporation | Panama |
| Gulf Sheba Shipping Limited | Hong Kong |
| Gulf Navigation Holding PJSC(Br) | Kingdom of Saudi Arabia |

The Group also has interest in the following joint ventures:

| *Joint ventures* | *Country of incorporation* | *Percentage of shareholding* |
|---|---|---|
| Gulf Stolt Ship Management JLT | United Arab Emirates | 50% |
| Gulf Stolt Tankers DMCCO | United Arab Emirates | 50% |

## 2 Basis of preparation and accounting policies

### Basis of preparation

The condensed consolidated interim financial information for the three month period ended 31 March 2014 has been prepared in accordance with IAS 34: "Interim Financial Reporting". This condensed consolidated interim financial information does not include all the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group at and for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The condensed consolidated interim financial information has been prepared under the historical cost convention, except for derivative financial instruments which are stated at fair value.

### Going concern

The Group's condensed consolidated interim financial information has been prepared on a going concern basis, however, given the conditions and events described below there exists a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

As of 31 March 2014, the Group had accumulated losses of AED 1,404,810 thousand which represents more than one half of the share capital. In accordance with the UAE Federal Law No 8. of 1984 (as amended), an extraordinary general meeting ("EGM") of the shareholders was convened on 5 January 2014 and a resolution was obtained from the shareholders to enable the Group to continue as a going concern. The ability of the Group to continue as a going concern is reliant upon continued availability of external debt financing and/or additional equity and/or the Group's ability to reverse or mitigate the impact of adverse arbitration awards through legal defense and/or negotiations. At 31 March 2014, the Group continued to remains in breach of the terms of the loan agreements with its lenders. These breaches gave the lenders the right to call an event of default and by further notice, declare that all the loans are payable on demand. Accordingly, the Group's bank borrowings are classified as current liabilities as at 31 March 2014, which resulted in a net current liability position at of AED 695,391 thousand as of that date. During the year ended 31 December 2013, two of the Group's vessels, Gulf Sheba and Gulf Eyadah, were arrested at the instructions of the lenders at the Port of Rotterdam and at the Port of Bahamas respectively. Notwithstanding such arrest, management was in continued discussions with its lenders to proceed for a consensual sale of both vessels and restructure the payment of the shortfall of loans relating to these vessels.

In February 2014, the Group completed the sale of the aforesaid two vessels for a total consideration of AED 368,200 thousand including the bunker inventory on the vessels. After applying the full proceeds from the aforesaid sale against the loan balances there is a shortfall of AED 36,471 thousand (Note 10). The Group's management are now in discussions with another group of lenders to restructure the repayment of the shortfall. If the Group is unable to agree the required restructuring of the remaining loan related to the vessels and in the absence of other financing alternatives, the Group would be dependent on market based asset values to repay its borrowings. As a result, there exists a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern such that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Accordingly, assets may be realised at significantly less than book value and additional liabilities may arise.

## 2 Basis of preparation and accounting policies (continued)

**Going concern** (continued)

As of the date of authorisation of this condensed consolidated interim financial information, the discussions with the lenders are in progress and the Group is confident that a mutually acceptable arrangement will be reached. Management are also considering various options for raising finance to fund the Group's working capital and future investment requirements.

The Directors, after reviewing the Group's cash flow forecasts and strategic plans for a period of not less than 12 months, from the date of the signing of this condensed consolidated interim financial information and after reviewing the status of the Group's legal defense and/or plans for negotiating a settlement in respect of the adverse arbitration awards, have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future.

The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

a) *New standards, amendments to published standards and interpretations*

The Group has adopted certain new standards and amendments which have been issued and are effective from period beginning 1 January 2014:

- IAS 32 (amendment), 'Financial instruments: Presentation' (effective from 1 January 2014);
- IAS 36 (amendment), 'Impairment of assets' (effective from 1 January 2014); and
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2014).

There are no other IFRSs, amendments or IFRIC interpretations that are effective that would be expected to have a material impact on the Group's condensed consolidated interim financial information.

b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Group*

Certain new amendments to existing standards have been published and are mandatory for the Group's accounting period beginning after 1 January 2014 or later period but have not early adopted by the Group:

- IFRS 9, 'Financial instruments' (effective date deferred by IASB).

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Group is assessing the impact of the above standards, amendments and interpretations to published standards on the Group's condensed consolidated interim financial information.

## 2 Basis of preparation and accounting policies (continued)

### Functional and presentation currency

Items included in the interim financial information of each of the Group's subsidiaries and joint ventures (together, "entities") are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). Since most of the transactions of the entities are denominated in US Dollar ("USD") or currencies pegged to the USD, the functional currency of the entities is USD. However, the condensed consolidated interim financial information of the Group is presented in United Arab Emirates Dirhams ("AED"), which is the presentation currency of the Group. Amounts in US Dollars have been translated into United Arab Emirates Dirhams at the rate of USD 1 = AED 3.66 as there is a constant peg between USD and AED.

### Basis of consolidation

The condensed consolidated interim financial information at and for the three month period ended 31 March 2014, comprises results of the Company and its subsidiaries (together referred to as "the Group"). The condensed interim financial information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

### Significant accounting policies

The Group has consistently applied the accounting policies and methods of computation used in the preparation of the last published annual consolidated financial statements for the year ended 31 December 2013.

### Estimates and judgements

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements at and for the year ended 31 December 2013.

### Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements at and for the year ended 31 December 2013.

## 3 Critical accounting estimates and judgements

*Impairment of vessels*

Management assesses the impairment of vessels whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:

- Significant decline in an asset's market value beyond that would be expected from the passage of time or normal use;
- Significant changes in the use of its assets or the strategy of the operation to which the asset belongs;
- Significant changes in the technology and regulatory environments; and
- Evidence from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If such an indication exists, an impairment test is completed by comparing the carrying values of the cash generating unit with their recoverable amounts. The recoverable amount of the asset takes into consideration its value-in-use.

*Estimated impairment of goodwill*

Management reviews the business performance based on the type of business. Management has identified the Vessel owning and chartering division, Commercial division and Agency division as the main types of business. Goodwill is monitored by the management at the operating segment level. Goodwill has been allocated to the vessel owning and charter segment.

The Group tests annually and whenever there is an indication that the goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units (CGU) have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 6).

If the budgeted gross margin used in the value in use calculation of the vessel chartering CGU (excluding chemical tankers which are under long term time charter) had been 5% lower than management's estimates at 31 March 2014, the Group would have recognised an impairment charge against goodwill of AED 47,626 thousand.

If the estimated cost of capital used in determining the pre-tax discount rate for the vessel chartering CGU had been 0.5% higher than management's estimates, the Group would have recognised an impairment charge against goodwill of AED 70,057 thousand.

## 4 Operating segments

### Business segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Group's Executive Committee who makes strategic decisions. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group comprises the following main business segments:

- *Vessel owning & chartering:* Chartering of vessels to customers;
- *Commercial:* Trading of goods such as supplies, chemicals and gases required for ships;
- *Agency:* Providing agency services to ships calling at ports; and
- *Other:* Includes management of all divisions and administrative activities.

Vessel owning and chartering, commercial and agency meet criteria required by IFRS 8, 'Operating Segments' and reported as separate operating segments. The other business segment does not meet the quantitative thresholds required by IFRS 8, and the results of its operations are included in the 'other' column.

Effective 1 October 2013, the Group re-allocated the activities and results of its crew boat operations from its agency segment to its vessel owning and chartering segment. These crew boats are now reviewed by the Board of Directors and chief operating decision-maker as part of the vessel owning and chartering segment notwithstanding that operational management is delegated to the agency division. In line with this change, the prior period segment information has been restated accordingly.

The effect of restatement on these consolidated financial statements is summarised below.

| | Vessel owning and chartering (Previously stated) | Effect of reclassific-ation | Vessel owning and chartering (Restated) | Agency (Previously stated) | Effect of reclassific-ation | Agency (Restated) |
|---|---|---|---|---|---|---|
| | For the three month period ended 31 March 2013 (Unaudited) | | | | | |
| Operating revenue | 31,330 | 3,056 | 34,386 | 6,165 | (3,056) | 3,109 |
| Finance income | 5 | - | 5 | - | - | - |
| Other income | 229 | - | 229 | 14 | - | 14 |
| Operating costs | (34,220) | (1,634) | (35,854) | (3,648) | 1,634 | (2,014) |
| Finance costs | (14,444) | - | (14,444) | (12) | - | (12) |
| General and administrative expenses | (165) | (457) | (622) | (914) | 457 | (457) |
| Share of (loss) / profit in jointly controlled entities – net | - | - | - | - | - | - |
| Reportable segment (loss) / profit | (17,265) | 965 | (16,300) | 1,605 | (965) | 640 |

## 4 Operating segments (continued)

**Business segments** (continued)

For the three month period ended 31 March 2014, operating revenue and net profit attributable to crew boat operations amounted to AED 2,877 thousand and AED 1,512 thousand respectively. As of 31 March 2014, total reportable assets and liabilities attributable to crew boat operations amounted to AED 6,877 thousand (31 December 2013: AED 7,060 thousand) and AED Nil (31 December 2013: AED Nil) respectively.

**Geographical segments**

The Group's Executive Committee does not consider the geographical distribution of the Group's operations to be relevant for their internal management analysis and therefore no geographical segment information has been disclosed.

All operating segments' results are reviewed regularly by the Group's Executive Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## Gulf Navigation Holding PJSC

## Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2014
(continued)

### 4 Operating segments (continued)

**Information about reportable segments**
**All figures in AED '000**

| | Vessel owning and chartering | Commercial | Agency | Other | Inter segment elimination | Total | Vessel owning and chartering (Restated) | Commercial | Agency (Restated) | Other | Inter segment elimination | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the three month period ended 31 March 2014 (Unaudited) | | | | | | For the three month period ended 31 March 2013 (Unaudited) | | | | | |
| Operating revenue | 25,508 | 896 | 4,461 | - | - | 30,865 | 34,386 | 582 | 3,109 | - | - | 38,077 |
| Finance income | - | - | - | 428 | - | 428 | 5 | - | - | 428 | - | 433 |
| Other income | 36 | 217 | 24 | 222 | - | 499 | 229 | 162 | 14 | 460 | - | 865 |
| Operating costs | (18,775) | (702) | (3,161) | - | 19 | (22,619) | (35,854) | (413) | (2,014) | - | 19 | (38,262) |
| Finance costs | (4,439) | - | (12) | (151) | - | (4,602) | (14,444) | - | (12) | (104) | - | (14,560) |
| General and administrative expenses | (1,424) | (216) | (517) | (2,557) | - | (4,714) | (622) | (223) | (457) | (3,242) | - | (4,544) |
| Share of profit/(loss) in joint ventures - net | - | - | - | 682 | - | 682 | - | - | - | (1,635) | - | (1,635) |
| Reportable segment profit/(loss) | 906 | 195 | 795 | (1,376) | 19 | 539 | (16,300) | 108 | 640 | (4,093) | 19 | (19,626) |

| | Vessel owning and chartering | Commercial | Agency | Other | Inter segment elimination | Total | Vessel owning and chartering | Commercial | Agency | Other | Inter segment elimination | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 31 March 2014 (Unaudited) | | | | | | At 31 December 2013 (Audited) | | | | | |
| Reportable segment assets | 2,622,194 | 16,573 | 76,343 | 4,211,065 | (5,887,783) | 1,038,392 | 3,853,422 | 14,906 | 65,722 | 3,341,384 | (5,850,989) | 1,424,445 |
| Reportable segment liabilities | 1,924,302 | 16,248 | 45,257 | 4,621,820 | (5,850,971) | 756,656 | 4,504,525 | 14,776 | 43,487 | 2,394,616 | (5,814,156) | 1,143,248 |

## 5 Vessels and equipment

Vessels with a book value of AED 678,295 thousand (31 December 2013: AED 685,772 thousand) are mortgaged as security for borrowings (Note 10).

During the year ended 31 December 2013, the Group's two vessels, which were re-classified as held for sale, were arrested at the Port of Rotterdam and at the Port of Bahamas. The sale of these vessels was approved by the shareholders at the EGM on 5 January 2014 and further approved by the competent government authority. The Group completed the sale of the aforesaid vessels in February 2014 for a total consideration of AED 368,200 thousand including the bunker inventory on the vessels, accordingly an impairment charge of AED 262,661 thousand was recognised as part of the results for the year ended 31 December 2013.

The Group's management had previously contracted with a shipyard ("the Contractor") for the construction of two new vessels. The carrying amount of advances recorded as part of capital work-in-progress as of 31 December 2013 was AED 106,506 thousand. Discussions were continuing with the Contractor in relation to new contractual terms. However, alongside these discussions, the Contractor issued Notices of Termination for these two contracts and filed a claim to retain the first instalment and/or damages for any loss suffered. The Group responded with its own legal action, the matter then went into arbitration. Based on the award made by the arbitrator in March 2014, the Group made a provision for impairment of the entire amount of the capital work-in-progress amounting to AED 108,045 thousand which includes the aforesaid advance of AED 106,506 thousand, as part of the results for the year ended 31 December 2013. The company has subsequent to the three month period ended 31 March 2014, filed an appeal against the arbitration award within the stipulated period.

## 6 Goodwill

Management reviews the business performance based on type of business. Management has identified the Vessel owning and chartering division, Commercial division and Agency division as main type of business. Goodwill is monitored by the management at the operating segment level. Goodwill has been allocated to the vessel owning and charter segment.

The recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on estimated charter rates using currently available market information and historical trends for vessels which are not on long term time charter. However, with respect to vessels which are on time charter, for more than five years, a period till the end of their charter party agreement has been used for the value-in-use calculations. Cash flows beyond the signed charter party agreement are extrapolated using the estimated growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## 6 Goodwill (continued)

*Key assumptions used in value-in-use calculations are:*

*Gross margin*
Gross margin is based on the current level of activity and estimated future charter rates.

| | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Growth rate | 2% | 2% |

*Discount rates*
8.4% (2013: 8%) reflects management's benchmark for evaluating investment proposals.

Based on the above computation, an impairment charge of AED 292,804 thousand was recognised as part of the results for the year ended 31 December 2013. For sensitivity analysis, please refer Note 3.

## 7 Trade and other receivables

| | 31 Mar 2014<br>AED'000<br>(Unaudited) | 31 Dec 2013<br>AED'000<br>(Audited) |
|---|---|---|
| **Current** | | |
| Trade accounts receivable | 25,850 | 24,338 |
| Less: provision for impairment of trade receivables | (16,707) | (16,716) |
| | 9,143 | 7,622 |
| Awards receivable | 5,914 | 5,914 |
| Advances to suppliers | 1,692 | 4,311 |
| Prepayments | 3,447 | 1,477 |
| Other receivables | 8,944 | 8,991 |
| | 29,140 | 28,315 |

## 8 Non-current assets held for sale

Following the arrest of two of the Group's vessels during the year ended 31 December 2013 (Note 5) and based on discussions with lenders, management had taken a decision to sell both the vessels. Accordingly, these vessels were presented as non-current assets held for sale at their respective estimated net realisable values as at 31 December 2013.

The sale of these vessels was approved by the shareholders at the EGM on 5 January 2014 and further approved by the competent government authority. The Group completed the sale of the aforesaid vessels in February 2014 for a total consideration of AED 368,200 thousand including the bunker inventory on the vessels, accordingly an impairment charge of AED 262,661 thousand had been recognised in the results for the year ended 31 December 2013.

## 8 Non-current assets held for sale (continued)

The assets of the disposal group classified as held for sale at 31 December 2013 are as follows:

| | 31 Dec 2013 AED'000 (Audited) |
|---|---|
| **Assets of a disposal group classified as held for sale** | |
| Net book value of the vessels | 620,971 |
| Inventory | 9,890 |
| | 630,861 |
| Net realisable value adjustment on vessels classified as held for sale | (262,661) |
| **Net recoverable value** | 368,200 |

There were no non-current assets held for sale as at 31 March 2014.

## 9 Trade and other payables

| | 31 Mar 2014 AED'000 (Unaudited) | 31 Dec 2013 AED'000 (Audited) |
|---|---|---|
| Trade payables | 23,459 | 19,391 |
| Dividend payable | 11,227 | 11,270 |
| Advance from customers | 75 | 8,626 |
| Other accruals and payables | 195,265 | 233,665 |
| | 230,026 | 272,952 |

## 10 Borrowings

| | | |
|---|---|---|
| **Current** | | |
| Borrowings | 497,997 | 843,221 |

## 10 Borrowings (continued)

The movement of bank borrowings are summarised as below

| | Term-loan I AED'000 | Term-loan II AED'000 | Term-loan III AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance at 1 January 2014 | 190,792 | 470,860 | 181,569 | 843,221 |
| Add: Transfer from accruals | 7,477 | - | 21,858 | 29,335 |
| Add: Finance charges during the period | 1,149 | - | 1,826 | 2,975 |
| Less: Sales proceeds from sale of two vessels (Note 8) | (192,900) | - | (175,300) | (368,200) |
| Less: Repaid during the period | - | (9,334) | - | (9,334) |
| Balance at 31 March 2014 | 6,518 | 461,526 | 29,953 | 497,997 |
| **Average nominal interest rate** | 2.80% | 0.95% | 3.40% | 2.45% |
| Balance at 1 January 2013 | 207,541 | 531,893 | 190,711 | 930,145 |
| Less: Repaid during the year | (16,749) | (61,033) | (9,142) | (86,924) |
| Balance at 31 December 2013 | 190,792 | 470,860 | 181,569 | 843,221 |
| **Average nominal interest rate** | 3.60% | 1.05% | 3.60% | 2.75% |

**Term loan I**

The term-loan of AED 311,100 thousand was availed by the Group to acquire ships costing AED 402,600 thousand. This loan carried interest at LIBOR plus 0.7% per annum and was payable in 20 semi-annual instalments of AED 9,150 thousand commencing from 28 January 2008. The balance as of 31 March 2014 represents the shortfall after applying the proceeds from the sale of the related vessel.

**Term loan II**

The term-loan of AED 676,331 thousand was availed by the Group to acquire the ships amounting to AED 795,684 thousand. This loan carries interest at LIBOR plus 0.7% per annum and is payable in 39 quarterly instalments commencing from 1 August 2008 and a final payment of AED 279,874 thousand on 31 March 2019. A repayment of AED 9,334 thousand was made during the period.

**Term loan III**

The term-loan of AED 236,070 thousand was availed by the Group to acquire ships costing AED 337,295 thousand. This loan carried interest at LIBOR plus 2.8% per annum and was payable in 23 quarterly instalments commencing from 26 April 2011. The balance as of 31 March 2014 represents the shortfall after applying the proceeds from the sale of the related vessel.

## 10 Borrowings (continued)

The above bank loans are secured by the following:

- assignment of vessels mortgage;
- assignment of refund guarantee;
- pledge of shares of subsidiaries owning these vessels; and
- corporate guarantee by the parent company.

The significant covenants for the above loans are as follows:

- the current assets at all times exceed the current liabilities;
- maintain at all times a cash and cash equivalents balance of over a certain percentage of the net debt; and
- ensure that the aggregate free market value of the vessels is over a certain percentage of the net debt.

At 31 March 2014, the Group continues to remains in breach of the terms of an agreement with its lenders. The breach has given the lenders the right to call an event of default and by further notice, declare that all the loans are payable on demand. Accordingly, the Group's bank borrowings are classified as current liabilities at 31 March 2014. The Group's management are in discussions with another group of lenders to restructure the repayment of the shortfall in the term loans I and III above (Note 2) and is negotiating with the lenders to regularise the agreement in relation to term loan II.

In relation the shortfall for term loans I and III, a conditional settlement agreement was signed by the Group with the lenders on 28 November 2013, whereby the parties agreed to discuss the rescheduling of the shortfall, on the basis that the repayment of the shortfall shall commence after 1 January 2015. The shortfall is expected to be settled by 31 July 2017. As of the reporting date, discussions continue with the lenders to determine the final amount of the shortfall and finalise a mutually acceptable repayment plan.

## 11 Related party transactions and balances

Related parties include major shareholders, directors, key management personnel of the Group, and their related entities. Pricing policies and terms of these transactions are approved by the Group's management. During the period, the Group entered into following significant transactions with related parties in the ordinary course of business at mutually agreed terms and conditions.

| | Three months ended | |
|---|---|---|
| | 31 Mar 2014<br>AED'000<br>(Unaudited) | 31 Mar 2013<br>AED'000<br>(Unaudited) |
| Management fees charged by the joint venture | 1,197 | 1,197 |
| Sale of building to a director | - | 7,320 |
| Office rental charged by a director | 183 | 28 |

## 11 Related party transactions and balances (continued)

The amounts due from / to related parties are as follows:

| | 31 Mar 2014 AED'000 (Unaudited) | 31 Dec 2013 AED'000 (Unaudited) |
|---|---|---|
| **Due from related parties** | | |
| **Non-current** | | |
| Gulf Stolt Tankers DMCCO (Joint venture) (i) | 25,631 | 25,631 |
| **Due from related parties** (continued) | | |
| **Current** | | |
| Gulf Stolt Tankers DMCCO (Joint venture) | 4,590 | 4,143 |
| Gulf Stolt Ship Management Group JLT (Joint venture) | 2,173 | 1,983 |
| | 6,763 | 6,126 |
| **Due to related parties** | | |
| Shareholders of Gulf Navigation LLC (ii) | 5,914 | 5,914 |
| Gulf Stolt Ship Management Group JLT (Joint venture) | 7,814 | 6,736 |
| Due to Directors for Directors fee | 2,404 | 2,068 |
| | 16,132 | 14,718 |
| **Loan from related parties** | | |
| Directors/Shareholders (iii) | 10,980 | 10,980 |

(i) The Group has provided a loan to Gulf Stolt Tankers DMCCO (GST). It carries interest at a rate of 6.6% per annum.

(ii) Amounts due to the shareholders of Gulf Navigation LLC represent a payable in respect of an amount of AED 5,914 thousand (2013: AED 5,914 thousand) retained to cover the extent of awards receivables guaranteed by them. Awards receivables of AED 5,914 thousand included in trade and other receivables (Note 7) represent amounts awarded by the arbitrators for claims filed by Gulf Navigation Holding LLC against certain third parties. In accordance with an undertaking given by certain shareholders of Gulf Navigation Holding LLC, any un-recovered amount will be set-off against amounts payable to them.

(iii) The Group drawn down loans from directors/shareholders on following terms:

| | Loan I AED'000 | Loan II AED'000 | Loan III AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance at 1 January 2013 | - | - | - | - |
| Add: Amount availed | 3,660 | 3,660 | 3,660 | 10,980 |
| Balance at 31 December 2013 and 31 March 2014 | 3,660 | 3,660 | 3,660 | 10,980 |
| **Average nominal interest rate** | 6.5% | - | 6.5% | 4.33% |

## 11 Related party transactions and balances (continued)

***Key management remuneration***

| | Three months ended 31 Mar 2014 AED'000 (Unaudited) | Three months ended 31 Mar 2013 AED'000 (Unaudited) |
|---|---|---|
| Salaries and benefits | 456 | 504 |
| End of service benefits | - | 16 |
| | 456 | 520 |

## 12 Operating revenue

| | | |
|---|---|---|
| Vessel chartering | 22,631 | 31,330 |
| Ship agency | 7,338 | 6,165 |
| Commercial agency | 896 | 582 |
| | 30,865 | 38,077 |

## 13 Voyage related direct costs

| | | |
|---|---|---|
| Vessel chartering: | | |
| Cargo related survey, hold cleaning charges and other related expenses | 91 | 527 |
| | 91 | 527 |

## 14 Other operating costs

| | | |
|---|---|---|
| Vessel chartering: | | |
| Ship running | 8,905 | 15,851 |
| Vessel depreciation | 7,477 | 14,679 |
| Amortisation of dry docking cost | 571 | 483 |
| Ship repair | 351 | 1,722 |
| Others | - | 942 |
| Ship agency: | | |
| Operating cost | 4,346 | 3,468 |
| Vessel depreciation | 176 | 176 |
| Commercial agency | 702 | 414 |
| | 22,528 | 37,735 |

## 15 General and administrative expenses

| | Three months ended 31 Mar 2014 AED'000 (Unaudited) | Three months ended 31 Mar 2013 AED'000 (Unaudited) |
|---|---|---|
| Staff salaries and benefits (Note 16) | 2,237 | 2,452 |
| Professional fees | 1,468 | 765 |
| Reversal of impairment of trade receivables | (9) | (35) |
| Other administrative expenses | 1,018 | 1,362 |
| | 4,714 | 4,544 |

## 16 Staff costs

| | | |
|---|---|---|
| Salaries and wages | 1,578 | 1,789 |
| Employees end of service benefits | 225 | 75 |
| Other benefits | 434 | 588 |
| | 2,237 | 2,452 |

## 17 Finance costs

| | | |
|---|---|---|
| Interest on bank borrowings | 4,602 | 8,625 |
| Interest rate swap hedge reserve recycled to the consolidated income statement | - | 5,935 |
| | 4,602 | 14,560 |

## 18 Earnings/(loss) per share

| | | |
|---|---|---|
| Profit/(loss) for the period | 539 | (19,626) |
| Weighted average number of shares outstanding during the period (in thousands) | 1,655,000 | 1,655,000 |
| Basic and diluted earnings/(loss) per share | AED 0.0003 | (AED 0.0119) |

## 19 Operating leases as lessor

The Group leases out its marine vessels under operating leases (time charters). Time charters are for periods ranging from one month to fifteen years. The lease rental is usually negotiated to reflect market rentals upon entering into / renewal of the charter. Future minimum lease rentals receivables under the non-cancellable operating leases as at reporting date are as follows:

| | 31 Mar 2014 AED'000 (Unaudited) | 31 Dec 2013 AED'000 (Audited) |
|---|---|---|
| Not later than one year | 98,857 | 98,857 |
| Between one year and five years | 394,879 | 395,426 |
| Beyond five years | 447,393 | 471,439 |
| | 941,129 | 965,722 |