

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No. 2318517

K LINE AIR SERVICE (UK) LIMITED

Report and Financial Statements

31 December 1998



**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**

**REPORT AND FINANCIAL STATEMENTS 1998**

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Hayashi
M H Fowler
S Kikutake
S Sumiya

SECRETARY

S Hayashi

REGISTERED OFFICE

Unit 2, Mercury Centre
Central Way
Feltham
Middlesex TW14 0RN

BANKERS

Dai-Ichi Kangyo Bank
Asahi Bank
Barclays Bank PLC

SOLICITORS

Wilkinsons
7 & 9 Queens Road
Wimbledon
London SW19 8NJ

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

ACTIVITIES

The company is principally engaged in the business of international freight forwarding.

RESULTS AND DIVIDENDS

The turnover for the year amounted to £9,162,926 (1997- £8,990,269). A profit before taxation of £2,943 (1997 - £107,178) was made after accounting for administrative expenses and interest payable. The directors do not recommend the payment of a dividend for the year (1997 - £nil).

FUTURE PROSPECTS

The directors intend to continue the business of international freight forwarding and will work towards consolidating their position in the market place.

DIRECTORS

The directors who served throughout the year are shown on page 1.

None of the directors held any interests in the shares of the company or any other group companies.

CREDIT PAYMENT POLICY

It is the company's policy to agree terms and conditions of trade as part of the contractual relationship with suppliers. Invariably these will be standard conditions which include the terms of payment. It is the company's policy to settle invoices in accordance with agreed terms. The creditor days outstanding at 31 December 1998 was 37 days (1997 - 30 days).

YEAR 2000

The Year 2000 issue is one that affects all companies. A Year 2000 programme is near completion and progress is regularly monitored by the directors.

The directors are confident that the company will be Year 2000 compliant.

Costs incurred to date and anticipated future costs in relation to Year 2000 compliance are insignificant.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

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

S Hayashi

Director

7 June 1999

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.



AUDITORS' REPORT TO THE MEMBERS OF K LINE AIR SERVICE (UK) LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and
Registered Auditors

7 June 1999


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 £	1997 £
TURNOVER	2	9,162,926	8,990,269
Cost of sales		(8,130,951)	(7,839,981)
Gross profit		1,031,975	1,150,288
Administrative expenses		(1,021,564)	(1,035,924)
OPERATING PROFIT		10,411	114,364
Other interest receivable and similar income		14,014	13,187
Interest payable and similar charges	4	(21,482)	(20,373)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	2,943	107,178
Tax charge on profit on ordinary activities	6	(8,960)	(59,329)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(6,017)	47,849
Profit and loss account brought forward		93,921	46,072
Profit and loss account carried forward		87,904	93,921

All amounts are derived from continuing operations.

There are no recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account.


**BALANCE SHEET
31 December 1998**

	Note	£	1998 £	£	1997 £
FIXED ASSETS					
Tangible assets	7		72,943		90,682
CURRENT ASSETS					
Debtors	8	1,317,796		1,436,516	
Cash at bank and in hand		371,050		207,622	
		<u>1,688,846</u>		<u>1,644,138</u>	
CREDITORS: amounts falling due within one year					
Bank loans and overdrafts	9	215,942		277,282	
Trade creditors		299,625		277,240	
Amounts owed to group undertakings	10	554,148		379,979	
Other creditors including taxation and social security	11	356,170		442,398	
		<u>1,425,885</u>		<u>1,376,899</u>	
NET CURRENT ASSETS			<u>262,961</u>		<u>267,239</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			335,904		357,921
CREDITORS: amounts falling due after more than one year					
Amounts owed to group undertakings	10		(48,000)		(64,000)
			<u>287,904</u>		<u>293,921</u>
CAPITAL AND RESERVES					
Called up share capital	12		200,000		200,000
Profit and loss account			87,904		93,921
			<u>287,904</u>		<u>293,921</u>
Equity shareholders' funds					

These financial statements were approved by the Board of Directors on 7.6. 1999.

Signed on behalf of the Board of Directors

S Hayashi

Director


CASH FLOW STATEMENT
Year ended 31 December 1998

	Note	1998 £	1997 £
Net cash inflow from operating activities	16	<u>294,277</u>	<u>50,657</u>
Returns on investments and servicing of finance			
Interest received		14,014	13,187
Interest paid		<u>(21,482)</u>	<u>(20,373)</u>
		<u>(7,468)</u>	<u>(7,186)</u>
Taxation			
Corporation tax paid		<u>(60,057)</u>	<u>(46,826)</u>
Capital expenditure			
Purchase of tangible fixed assets		<u>(1,984)</u>	<u>(10,528)</u>
Increase/(decrease) in cash in the year	17	<u>224,768</u>	<u>(13,883)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
Increase/(decrease) in cash in the year		<u>224,768</u>	<u>(13,883)</u>
Net debt at beginning of year		<u>(69,660)</u>	<u>(55,777)</u>
Net funds/(debt) at end of year	17	<u>155,108</u>	<u>(69,660)</u>

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided over the estimated useful lives of the assets.

The following rates are used:

Short leasehold improvements	4% per annum
Plant and machinery	15% per annum on a reducing balance basis
Fixtures and fittings	15 per annum on a reducing balance basis
Computer software	33 $\frac{1}{3}$ % per annum

Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Leases

Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

2. TURNOVER

Turnover represents freight income excluding Value Added Tax, and includes sales to group companies of £2,697,491 (1997 - £2,615,208). In both the current and preceding financial year more than 90% of turnover and resultant profit before tax was generated from activity in the Asian geographical market.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' emoluments:		
Emoluments	87,293	158,562
	£	£
Employee costs (including directors) during the year:		
Wages and salaries	544,791	540,697
Social security costs	51,990	36,882
	596,781	577,579
	No.	No.
Average number of persons employed:		
Administration	16	18

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Bank loans and overdrafts	21,482	20,373

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998 £	1997 £
Profit on ordinary activities before taxation is after charging:		
Rentals under operating leases:		
Hire of plant and machinery	20,816	19,537
Other operating leases	63,676	62,205
Depreciation and other amounts written off owned tangible fixed assets	19,723	19,816
Auditors' remuneration:		
Audit fees	22,200	20,600


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
United Kingdom corporation tax at 31% (1997 – 31%)	9,302	60,399
Adjustment in respect of prior years	(342)	(1,070)
	<u>8,960</u>	<u>59,329</u>

The tax charge is high due to the different accounting and tax treatment of various items of expenditure.

The amounts of deferred tax provided in the financial statements and the potential amount not provided are:

	Provided		Unprovided	
	1998 £	1997 £	1998 £	1997 £
Capital allowances in excess of depreciation	1,776	-	-	7,041
Other timing differences	(1,776)	-	(41,424)	(44,640)
	<u>-</u>	<u>-</u>	<u>(41,424)</u>	<u>(37,599)</u>

7. TANGIBLE FIXED ASSETS

	Short leasehold improvements £	Plant and machinery £	Fixtures, fittings and computer software £	Total £
Cost at 1 January 1998	47,889	41,210	119,105	208,204
Additions	-	900	1,084	1,984
	<u>47,889</u>	<u>42,110</u>	<u>120,189</u>	<u>210,188</u>
At 31 December 1998				
Accumulated depreciation				
At 1 January 1998	14,279	23,458	79,785	117,522
Charge for the year	1,916	2,764	15,043	19,723
	<u>16,195</u>	<u>26,222</u>	<u>94,828</u>	<u>137,245</u>
At 31 December 1998				
Net book value				
At 31 December 1998	<u>31,694</u>	<u>15,888</u>	<u>25,361</u>	<u>72,943</u>
At 31 December 1997	<u>33,610</u>	<u>17,752</u>	<u>39,320</u>	<u>90,682</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
8. DEBTORS

	1998 £	1997 £
Trade debtors:		
Due within one year	650,877	744,904
Amounts owed by group undertakings:		
Fellow subsidiaries	506,824	533,273
Other debtors		
Due within one year	57,215	57,064
Due after more than one year	72,000	72,000
Prepayments and accrued income	30,880	29,275
	<u>1,317,796</u>	<u>1,436,516</u>

Included within other debtors due within one year is £3,000 (1997 - £5,400) due from Managing Director, Mr Hayashi. The maximum amount due from Mr Hayashi was £5,400. No interest is charged on the loan.

9. BANK LOANS AND OVERDRAFTS

	1998 £	1997 £
Overdrafts	45,942	107,282
Unsecured bank loans	170,000	170,000
	<u>215,942</u>	<u>277,282</u>

10. AMOUNTS OWED TO GROUP UNDERTAKINGS

	1998 £	1997 £
Due within one year:		
Owed to parent company	126,906	121,709
Owed to fellow subsidiary undertakings	427,242	258,270
	<u>554,148</u>	<u>379,979</u>
Due after more than one year:		
Owed to parent company	48,000	64,000
	<u>48,000</u>	<u>64,000</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1998 £	1997 £
This heading includes:		
Taxation and social security	<u>55,897</u>	<u>72,159</u>

A provision was made for a pending legal case in other creditors. The information of the case has not been disclosed since the disclosure of such information can be expected to prejudice seriously the position of the company.

12. CALLED UP EQUITY SHARE CAPITAL

	1998 £	1997 £
Authorised:		
800,000 ordinary shares of £1 each	<u>800,000</u>	<u>800,000</u>
Allotted and fully paid:		
200,000 ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>

13. OPERATING LEASE COMMITMENTS

At 31 December 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 1998 £	Others 1998 £	Land and buildings 1997 £	Other 1997 £
Leases which expire:				
Within one year	-	1,427	-	2,574
Within two to five years	-	63,890	-	47,208
After five years	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
	<u>60,000</u>	<u>65,317</u>	<u>60,000</u>	<u>49,782</u>

14. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling entity is Kawasaki Kisen Kaisha, a company incorporated in Japan. Copies of the financial statements of Kawasaki Kisen Kaisha can be obtained from Hibiya Central Building, 2-9 Nishi-Shinbashi 1-Chome, Minato-ku, Tokyo 105, Japan.

15. RELATED PARTY TRANSACTIONS

"K" Line Air Service (UK) Limited has taken advantage of the exemption contained in Financial Reporting Standard Number 8 "Related Party Disclosures" not to publish details of related party transactions with other group companies as it is a 90% owned subsidiary of the Kawasaki Kisen Kaisha group.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	10,411	114,364
Depreciation of tangible fixed assets	19,723	19,816
Decrease/(increase) in debtors	118,720	(35,356)
Increase/(decrease) in creditors	145,423	(48,167)
	<u>294,277</u>	<u>50,657</u>
Net cash inflow from operating activities	<u>294,277</u>	<u>50,657</u>

17. ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS

	At 1 January 1998 £	Cash Flow £	At 31 December 1998 £
Cash at bank and in hand	207,622	163,428	371,050
Overdrafts	(107,282)	61,340	(45,942)
		<u>224,768</u>	
Increase in cash in the year		224,768	
Debt due within one year - short term borrowings	(170,000)	-	(170,000)
	<u>(69,660)</u>	<u>224,768</u>	<u>155,108</u>
Total	<u>(69,660)</u>	<u>224,768</u>	<u>155,108</u>