"K" Line Bulk Shipping (UK) Limited

Report and Financial Statements

31 December 2008

Registered No. 4830352

Directors
H Yasui
N Shiba
Captain M Sugiyama

Secretary
R J R Dowding	(resigned 31 July 2008)
P Rogers	(appointed 1 August 2008)

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Mizuho Corporate Bank, Limited.
Bracken House
One Friday Street
London EC4M 9JA

The Bank of Tokyo-Mitsubishi UFJ, Limited.
12-15 Finsbury Circus
London EC2M 7BT

The Sumitomo Trust & Banking Co., Limited.
155 Bishopsgate
London EC2M 3XU

Mitsubishi UFJ Trust and Banking Corporation
24 Lombard Street
London EC3V 9AJ

Sumitomo Mitsui Banking Corporation Europe Limited
99 Queen Victoria Street
London EC4N 4TA

Registered Office
5th Floor
62 Threadneedle Street
London EC2R 8HP

Directors' report

The directors present their report and financial statements for the year ended 31 December 2008.

Results and dividends

The profit for the year, after taxation, amounted to US$123,399,804 (2007: US$57,875,005). The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activities of the company are chartering and the ownership of bulk vessels. During the year the company also had vessels under construction.

The authorised and issued share capital is denominated in GBP and has been translated into US$ at the historic rates ruling on the respective dates when the shares were authorised and issued.

The company's key financial performance indicators during the year were as follows:

	2008	*2007*	*Change*
	$000	*$000*	*%*
Turnover	327,137	203,618	61%
Profit after tax	123,399	57,875	113%
Shareholders' funds	249,832	126,433	98%
Cash at bank	21,255	21,895	(3)%

Turnover increased by 61% during the year primarily due to (a) additional vessels chartered in during the year, and (b) the market rate for freight being significantly higher during the year.

Cash balance increased significantly as a result of increased turnover. The increased cash inflow

(i) helped to generate interest receivable of around $1.7m,
(ii) allowed the granting of loans amounting to $61m, and
(iii) enabled the financing of vessels under construction.

Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. However, they consider that 2009 will show a slowdown in growth in conjunction with the current economic climate.

Directors

The directors who served the company during the year are as listed below:

H Yasui	
H Nagayama	(resigned 31 March 2008)
N Shiba	(appointed 1 April 2008)
Captain M Sugiyama	(appointed 1 July 2008)
Captain T Igarashi	(resigned 30 June 2008)

Directors' report

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as:

- Competitive risks

The existence of medium to long term contracts with some customers minimises the company's exposure to a certain extent.

- Legislative risks

In the UK and Europe, the main legislative risks are EU competition law, employment law, tax law and shipping legislation. These standards are subject to continuous revision; however, they are not expected to have a material impact on the ability of the company to generate a profit.

- Treasury operations and financial instruments

The company operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the company's activities.

- Financial instrument risks

The company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives.

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.

- Use of derivatives

The company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The company also uses interest rate swaps to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements. During the year, a forward freight agreement was also used to minimise the fluctuations in market freight rates.

- Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The company manages its cash flow in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business.

- Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are reviewed on a regular basis and provision is made for doubtful debts where necessary. The company does not suffer from significant bad debt expense.

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

Secretary

16 APR 2009

Statement of directors' responsibilities

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). The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that 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.

ERNST & YOUNG

Independent auditors' report

to the members of "K" Line Bulk Shipping (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

ERNST & YOUNG

Independent auditors' report

to the members of "K" Line Bulk Shipping (UK) Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

20 APR 2009

Profit and loss account

for the year ended 31 December 2008

	Note	2008 $	2007 $
Turnover	2	327,136,581	203,618,014
Cost of sales		(200,132,433)	(116,201,470)
Gross Profit		127,004,148	87,416,544
Administrative expenses		(3,082,767)	(2,707,146)
Operating Profit	3	123,921,381	84,709,398
Interest receivable	6	1,718,711	1,729,542
Interest payable and similar charges	7	(1,132,366)	(983,610)
Foreign exchange (losses)/gains on retranslation of loans		(17,661,785)	(4,821,899)
Profit on ordinary activities before taxation		106,845,941	80,633,431
Tax on profit on ordinary activities	8	16,553,863	(22,758,426)
Profit for the financial year		123,399,804	57,875,005

Statement of total recognised gains and losses

for the year ended 31 December 2008

There are no recognised gains or losses other than the profit of US$123,399,804 (2007: US$57,875,005) attributable to the shareholders for the year ended 31 December 2008.

Balance sheet

at 31 December 2008

	Notes	2008 $	2007 $
Fixed assets			
Tangible assets	9	245,987,360	203,882,138
Current assets			
Stocks	10	1,598,869	4,880,593
Debtors	11	85,655,662	19,531,933
Cash at bank		21,255,060	21,895,012
		108,509,591	46,307,538
Creditors: amounts falling due within one year	12	(31,106,987)	(35,233,965)
Net current assets		77,402,604	11,073,573
Total assets less current liabilities		323,389,964	214,955,711
Creditors: amounts falling due after more than one year	13	(73,557,639)	(68,151,298)
Provisions for liabilities	8(c)	–	(20,371,892)
		249,832,325	126,432,521
Capital and reserves			
Called up share capital	15	33,979,116	33,979,116
Profit and loss account	16	215,853,209	92,453,405
Shareholders' funds	16	249,832,325	126,432,521

Director: ....
H Yasui

Date: ...16 APR 2009..........

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The directors consider that the company's functional and reporting currency is the US$ because its business contracts are in US$.

Statement of cash flow

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a statement of cash flow in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Vessels	–	15 years
Leasehold property	–	20% per annum
Furniture and equipment	–	20% – 33% per annum

Vessels under construction are not depreciated. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in Sterling and other foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the US dollar are retranslated using the rate of exchange ruling at the balance sheet date and gains or losses on translation are included in the profit and loss account.

The authorised and issued share capital is denominated in GBP and has been translated into US$ at the historic rates ruling on the respective dates when the shares were authorised.

The exchange rate between GBP and USD was 1.438 at 31 December 2008.

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Leasing commitments

Rental payments under operating leases are charged against income on a straight-line basis over the lease term.

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The company also uses interest rate swap contracts to reduce interest rate exposures and forward freight agreement to minimise the fluctuations in market freight rates.

Stocks

Stocks consists of bunker fuel oil and diesel fuel oil which are stated at cost determined by first-in-first-out method.

2. Turnover

Turnover, which arises on continuing activities, represents the amounts receivable for services during the year, exclusive of VAT.

An analysis of turnover by geographical market is given below:

	2008	*2007*
	$	*$*
United Kingdom	70,516,607	36,646,208
Europe	205,497,733	117,998,463
Rest of the world	51,122,241	48,973,343
	327,136,581	203,618,014

3. Operating profit

This is stated after charging/(crediting):

	2008	*2007*
	$	*$*
Depreciation	8,991,360	8,309,253
Operating lease rentals – land and buildings	217,078	–
Operating lease rentals – vessel hire	120,146,593	79,595,766
Auditors' remuneration is analysed as follows:		
Audit of the financial statements	62,530	48,566
Other fees to auditors - taxation services	48,931	46,888
Foreign exchange (gain)/loss	(543,137)	4,901,786

Notes to the financial statements

at 31 December 2008

4. Staff costs

	2008	*2007*
	$	*$*
Wages and salaries	1,537,015	1,217,114
Social security costs	90,020	39,305
Other pension costs	30,958	23,335
	1,657,993	1,279,754

The monthly average number of employees during the year was as follows:

	2008	*2007*
	No.	*No.*
Administrative staff	10	6

5. Directors' emoluments

The remuneration paid to directors was:

	2008	*2007*
	US$	*US$*
Emoluments	525,129	467,455

No pension contributions were paid by the Company to directors during the year.

The amounts in respect of the highest paid director are as follows:

	2008	*2007*
	US$	*US$*
Emoluments	397,798	333,888

6. Interest receivable

	2008	*2007*
	$	*$*
Bank interest receivable	683,156	1,729,542
Loan interest receivable	1,035,555	–
	1,718,711	1,729,542

7. Interest payable and similar charges

	2008	*2007*
	$	*$*
Bank interest payable	1,132,366	983,610

Notes to the financial statements

at 31 December 2008

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2008	*2007*
	$	*$*
Current tax:		
UK corporation tax	3,907,490	15,148,280
Adjustment in respect of prior year	(89,461)	–
Total current tax (note 8(b))	3,818,029	15,148,280
Deferred tax:		
Origination and reversal of timing differences (note 8(c))	(20,371,892)	7,610,146
Tax on profit on ordinary activities	(16,553,863)	22,758,426

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 28.5% (2007– 30%). The differences are reconciled below:

	2008	*2007*
	$	*$*
Profit on ordinary activities before tax	106,845,941	80,633,431
Profit on ordinary activities by standard rate of tax in the UK of 28.5% (2007: 30%)	30,451,093	24,190,029
(Non-taxable income)/Disallowable expenses	(25,314,105)	23,530
Capital allowances in excess of depreciation	(1,229,498)	(9,065,279)
Adjustments in respect of previous periods	(89,461)	–
Total current tax (note 8(a))	3,818,029	15,148,280

Notes to the financial statements

at 31 December 2008

8. Tax (continued)

(c) Deferred tax

	2008 $	2007 $
Capital allowances in advance of depreciation	–	20,371,892
Provision for deferred taxation	–	20,371,892

	$
At 31 December 2007	20,371,892
Profit and loss account movement arising during the year (note 8(a))	(20,371,892)
At 31 December 2008	–

The company entered the Tonnage Tax regime during the year. Accordingly, the company no longer claims capital allowances on any fixed assets and therefore there is no timing difference in relation to the fixed assets as at 31 December 2008. The deferred tax liability as at 31 December 2007 has been reversed to the profit and loss account during the year.

9. Tangible fixed assets

	Leasehold Improvements $	Vessels under construction $	Vessels $	Furniture & Equipment $	TOTAL $
Cost:					
At 1 January 2008	–	83,206,524	139,220,497	–	222,427,021
Additions	279,837	47,502,947	3,032,757	281,041	51,096,582
At 31 December 2008	279,837	130,709,471	142,253,254	281,041	273,523,603
Depreciation:					
At 1 January 2008	–	–	18,544,883	–	18,544,883
Charge for the year	23,320	–	8,940,226	27,814	8,991,360
At 31 December 2008	23,320	–	27,485,109	27,814	27,536,243
Net Book Value:					
At 31 December 2008	256,517	130,709,471	114,768,145	253,227	245,987,360
At 1 January 2008	–	83,206,524	120,675,614	–	203,882,138

No depreciation is provided for fixed assets under construction.

Notes to the financial statements

at 31 December 2008

10. Stocks

	2008	2007
	$	$
Stocks	1,598,869	4,880,593
	1,598,869	4,880,593

Stocks consist of bunker fuel oil and diesel fuel oil which are stated at cost.

11. Debtors

	2008	2007
	$	$
Trade debtors	15,075,930	7,353,000
Prepayments and accrued income	9,962,448	12,178,933
Amounts owed by group undertakings	60,617,284	–
	85,655,662	19,531,933

12. Creditors: amounts falling due within one year

	2008	2007
	$	$
Bank loan (note 14)	10,419,195	8,455,685
Trade creditors	1,659,206	2,293,703
Amounts owed to group undertakings	270,212	822,434
Accruals and deferred income	16,660,021	13,846,366
Corporation tax payable	1,985,892	9,780,308
Other creditors	112,461	35,469
	31,106,987	35,233,965

13 Creditors: amounts falling due after more than one year

	2008	2007
	$	$
Loans (note 14)	73,557,639	68,151,298

Notes to the financial statements

at 31 December 2008

14. Loans

	2008	*2007*
	$	*$*
Amounts repayable:		
In one year or less or on demand	10,419,195	8,455,685
In more than one year but not more than two years	10,419,195	8,455,685
In more than two years but not more than five years	25,962,493	24,221,128
	46,800,883	41,132,498
In more than five years	37,175,951	35,474,485
	83,976,834	76,606,983

The first loan of $14,120,243 (JPY1,280,000,000) is repayable by 2012 in 12 equal instalments of $11,649,200 (JPY1,056,000,000) and one final instalment of $2,471,042 (JPY224,000,000). The rate of interest payable on the loan is 0.5% above LIBOR. The loan is secured by a fixed charge over the vessels.

The second loan of $40,278,544 (JPY3,651,250,000) is repayable by 2016 in 28 equal instalments of $26,640,927 (JPY2,415,000,000) and 1 final instalment of $13,637,617 (JPY1,236,250,000). The rate of interest payable on the loan is 0.17% above LIBOR. The loan is secured by a fixed charge over the vessels.

The third loan of $29,578,047 (JPY2,681,250,000) is repayable by 2016 in 29 equal instalments of $19,794,539 (JPY1,794,375,000) and 1 final instalment of $9,783,508 (JPY886,875,000). The rate of interest payable on the loan is 0.20% above LIBOR. The loan is secured by a fixed charge over the vessels.

15. Authorised and issue share capital

		2008		*2007*
Authorised	*No*	*$*	*No.*	*$*
Ordinary shares of £1 each	20,000,000	34,340,000	20,000,000	34,340,000

Allotted, called up and fully paid

		2008		*2007*
	No.	*$*	*No.*	*$*
Ordinary shares of £1 each	19,989,662	33,979,116	19,989,662	33,979,116

The authorised and issued share capital is denominated in GBP and has been translated into US$ at the historic rates ruling on the respective dates when the shares were authorised.

Notes to the financial statements

at 31 December 2008

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss reserves*	*Total share-holders' funds*
	$	*$*	*$*
At 31 December 2006	33,979,116	34,578,400	68,557,516
Profit for the year	–	57,875,005	57,875,005
At 31 December 2007	33,979,116	92,453,405	126,432,521
Profit for the year	–	123,399,804	123,399,804
At 31 December 2008	33,979,116	215,853,209	249,832,325

17. Capital commitments

Amounts contracted for but not provided in the financial statements for the construction of new vessels amounted to $520m (2007 – $199m).

18. Derivatives

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The company also uses interest rate swap contracts to reduce interest rate exposures. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	2008	*2007*
	$	*$*
Interest rate swaps	(682,904)	(278,998)
Forward foreign currency contracts	(2,571,335)	195,471

19. Operating lease commitments

At 31 December 2008, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	*2008 Vessel hire*	*Others (Vehicles)*	*2007 Vessel hire*
	$	*$*	*$*	*$*
Operating leases which expire:				
Within one year	–	–	–	30,314,500
Between two and five years	2,304,629	257,163,000	25,073	30,623,780
In more than five years	–	200,689,900	–	24,018,959

20. Defined contribution pension scheme

The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost and charge represent contributions payable by the company to the fund and amounted to $30,958 (2007 – $23,335). The amount of outstanding contributions at the year end was $nil (2007 – $nil).

Notes to the financial statements

at 31 December 2008

21. Related party transactions

The company has taken advantage of the exemption available in FRS 8 from disclosing transactions with related parties, 90% or more of whose voting rights are controlled within the Kawasaki Kisen Kaisha Limited group.

22. Ultimate parent undertaking and controlling party

The immediate parent undertaking is "K" Line Holding (Europe) Limited. The financial statements of "K" Line Holding (Europe) Limited represent the smallest group in which the company is consolidated and may be obtained from the company's registered office.

The ultimate parent undertaking and controlling party is Kawasaki Kisen Kaisha Limited, which is incorporated in Japan.

The financial statements of Kawasaki Kisen Kaisha Limited, which represent the largest group in which the company is consolidated, are available from Kawasaki Kisen Kaisha Limited, Hibiya Central Buildings, 2-9 Nishi-Shinbashi 1 - chome, Minato-ku, Tokyo 105-8421, Japan.