Registered No 4830352

# “K” Line Bulk Shipping (UK) Limited

## Report and Financial Statements

31 December 2011

Registered No 4830352

## Directors
H Yasui
G Tsuruta
M Iwashita

## Secretary
P Rogers

## Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

## Bankers
Mizuho Corporate Bank, Ltd
Bracken House
One Friday Street
London EC4M 9JA

The Bank of Tokyo-Mitsubishi UFJ, Ltd
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN

The Sumitomo Trust & Banking Co , Ltd
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 EC4V 4EH

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

Registered No 4830352

# Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

## Results and dividends

The loss for the year after taxation amounted to US$33,966,254 (2010 – profit of US$9,556,665) The directors do not recommend a final dividend (2010 – US$nil)

## 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 bulk vessels under construction, and entered into a partnership agreement with EDF for the operation of one cape size vessel

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

| | *2011* | *2010* | *Change* |
|---|---|---|---|
| | *$000* | *$000* | *%* |
| Turnover | 283,719 | 285,117 | (0 5%) |
| (Loss)/profit after tax | (33,966) | 9,557 | (455%) |
| Shareholder's funds | 242,658 | 276,625 | (12 3%) |
| Cash at bank and in hand | 29,978 | 34,637 | (13 5%) |

Despite the increased level in fleet operations, Turnover decreased by 0 5% as a result of the market rate for freight during the year being volatile and lower than the previous years

The cash balance decreased by 13 5% as a result of lower freight receivable, higher operating costs and additional financing of vessels under construction

The loss for the year is mainly attributed to exchange loss arising from the revaluations of loans payable in JPY and the exceptional costs incurred in relation to the cancellation of a ship building contract

## Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years They consider that 2012 will show a more conservative growth in conjunction with the current economic climate

## Directors

The directors who served the company during the year and as at the date of this report, unless otherwise indicated, are as follows

| | | |
|---|---|---|
| H Yasui | | |
| G Tsuruta | (appointed | 1 April 2011) |
| M Iwashita | (appointed | 1 January 2012) |
| N Shiba | (resigned | 31 March 2011) |
| K Morimoto | (resigned | 31 March 2011) |

# Directors' report (continued)

## Events since the balance sheet date

Following the delivery of a new vessel on 27 January 2012, "K" Line Bulk Shipping (UK) Ltd entered into new loan agreements totalling USD31 5m with Mizuho Corporate Bank Ltd and The Bank of Tokyo-Mitsubishi UFJ Ltd Both loans have a maturity date of 27 January 2022 with an interest rate of LIBOR+margin and are secured by a fixed charge over the vessel

## 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, UK Bribery Act 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 In addition, a bunker swap agreement was concluded near the end of year to hedge against fluctuation risk of bunker fuel price

### 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 (continued)

## Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out above

The company has considerable financial resources together with existing contracts with a number of customers and suppliers across different geographic areas and industries As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

## Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

## Auditor

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

On behalf of the Board of Directors

P Rogers
Secretary

Date 29 MAR 2012

# Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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) 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 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 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 and 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 "K" Line Bulk Shipping (UK) Limited**

We have audited the financial statements of ' K" Line Bulk Shipping (UK) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23 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)

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 Statement of directors' responsibilities set out on page 5, 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 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 Report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

## Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

# Independent auditor's report

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

## 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Ernst & Young LLP

Mohan Pandian (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London

Date 30 MAR 2012

# Profit and loss account

**for the year ended 31 December 2011**

| | Notes | *2011* *US$* | *2010* *US$* |
|---|---|---|---|
| ***Turnover*** | 2 | 283,719,482 | 285,116,723 |
| Cost of sales | | (272,745,311) | (246,299,492) |
| ***Gross profit*** | | 10,974,171 | 38,817,231 |
| Administrative expenses | | (27,858,287) | 949,315 |
| ***Operating (loss)/profit*** | 3 | (16,884,116) | 39,766,546 |
| Interest receivable and similar income | 6 | 284,578 | 484,194 |
| Interest payable and similar charges | 7 | (2,655,605) | (2,125,298) |
| Foreign exchange loss on retranslation of loans | | (14,251,826) | (27,757,990) |
| ***(Loss)/profit on ordinary activities before taxation*** | | (33,506,969) | 10,367,452 |
| Tax | 8 | (459,285) | (810,787) |
| ***(Loss)/profit for the financial year*** | 16 | (33,966,254) | 9,556,665 |

# Statement of total recognised gains and losses

**for the year ended 31 December 2011**

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of US$33,966,254 in the year ended 31 December 2011 (2010–profit of US$9,556,665)

# Balance sheet

**at 31 December 2011**

| | Notes | 2011 US$ | 2010 US$ |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Tangible assets | 9 | 502,743,382 | 359,417,190 |
| ***Current assets*** | | | |
| Stocks | 10 | 9,754,507 | 6,879,100 |
| Debtors | 11 | 74,960,254 | 111,610,973 |
| Cash at bank and in hand | | 29,977,676 | 34,636,842 |
| | | 114,692,437 | 153,126,915 |
| ***Creditors:*** amounts falling due within one year | 12 | (69,471,770) | (46,406,520) |
| ***Net current assets*** | | 45,220,667 | 106,720,395 |
| ***Total assets less current liabilities*** | | 547,964,049 | 466,137,585 |
| ***Creditors:*** amounts falling due after more than one year | 13 | (305,305,725) | (189,513,007) |
| ***Net assets*** | | 242,658,324 | 276,624,578 |
| ***Capital and reserves*** | | | |
| Called up share capital | 15 | 33,979,116 | 33,979,116 |
| Profit and loss account | 16 | 208,679,208 | 242,645,462 |
| ***Shareholder's funds/equity*** | 16 | 242,658,324 | 276,624,578 |

The financial statements which comprise of the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes were approved by the Board of Directors and were signed on its behalf by

H Yasui

Director

Date **29 MAR 2012**

Company number 4830352

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies

***Basis of preparation***

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

***Functional currency***

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

***Going concern***

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus we continue to adopt the going concern basis of accounting in preparing the annual financial statements

***Statement of cash flows***

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 undertaking publishes group financial statements

***Tangible fixed assets***

All fixed assets are initially recorded at cost

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 |

The cost of tangible fixed assets includes expenditure incurred during construction, delivery and modification Where a substantial period of time is required to bring the asset into use attributable finance costs are capitalised and included in the cost of the relevant asset

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

***Stocks***

Stocks consist of bunker fuel oil and diesel fuel oil which are ascertained on a "first-in-first-out" basis These are stated at the lower of cost and net realisable value

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies (continued)

## 1. Notes heading

***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 1 554 at 31 December 2011 (2010 – 1 566)

***Leasing commitments***

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

***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

***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, forward freight agreement to minimise the fluctuations in market freight rates and bunker swap contracts to minimise the fluctuations in bunker prices The company considers its derivative instruments do not qualify for hedge accounting

***Turnover recognition***

The time charter equivalent of income from the company's vessel chartering activities as well as brokerage income are recognised on a time proportion basis The voyage charter equivalent of income from the company's vessel chartering activities (including any demurrage) is recognised on a voyage completion basis

***Loans payable***

All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received, net of issue costs associated with the borrowing After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method Gains or losses are recognised in the profit and loss account when liabilities are derecognised or impaired, as well as through the amortisation process

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies (continued)

***Joint venture***

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other ventures under a contractual agreement

The Group's share of the results of joint ventures is included in the Profit and Loss account using the gross equity method of accounting Investments in joint ventures are carried in the Balance sheet at cost plus post-acquisition changes in the company's share of the net assets of the entity, less any impairment in value

## 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

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| United Kingdom | 14,887,050 | 30,462,453 |
| Europe | 224,698,894 | 198,629,147 |
| Rest of the world | 44,133,538 | 56,025,123 |
| | 283,719,482 | 285,116,723 |
| Operating lease income from charter hire | 281,466,451 | 284,361,616 |

## 3. Operating loss/(profit)

This is stated after charging/(crediting)

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Auditors' remuneration – audit of the financial statements | 49,399 | 45,007 |
| Other fees to auditors – taxation services | 23,868 | 18,954 |
| Other fees to auditors – other services | 7,580 | – |
| Depreciation | 23,366,541 | 19,043,726 |
| Operating lease rentals – land and buildings | 224,296 | 215,294 |
| Operating lease rentals – vessel hire | 149,880,823 | 146,161,080 |
| Foreign exchange loss/(gain) | 1,185,812 | (5,654,401) |
| Cancellation cost of ship building contract | 20,913,499 | – |

# Notes to the financial statements

**at 31 December 2011**

## 4. Directors' remuneration

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| Remuneration | 1,042,983 | 1,065,072 |

No pension contributions were paid by the company to directors during the year (2010 – US$nil)

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

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| Remuneration | 706,640 | 672,451 |

## 5. Staff costs

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| Wages and salaries | 3,032,819 | 2,320,117 |
| Social security costs | 145,950 | 134,733 |
| Other pension costs | 77,262 | 41,060 |
| | 3,256,031 | 2,495,910 |

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

| | *No* | *No* |
|---|---|---|
| Administration | 17 | 15 |

## 6. Interest receivable and similar income

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| Bank interest receivable | 86,043 | 85,423 |
| Loan interest receivable from group undertakings | 194,976 | 306,135 |
| Other interest receivable | 3,559 | 92,636 |
| | 284,578 | 484,194 |

## 7. Interest payable and similar charges

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| Bank loan interest payable | 2,655,605 | 2,112,794 |
| Corporate tax interest payable | – | 12,504 |
| | 2,655,605 | 2,125,298 |

# Notes to the financial statements

**at 31 December 2011**

## 8. Tax

(a) Tax on (loss)/profit on ordinary activities

The tax charge is made up as follows

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| ***Current tax*** | | |
| UK corporation tax on the (loss)/profit for the year | 459,285 | 417,427 |
| Group relief (recoverable)/payable | – | 387,078 |
| Adjustment in respect of prior year | – | 6,282 |
| Total current tax (note 8(b)) | 459,285 | 810,787 |

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26 5% (2010 – 28%) The differences are explained below

| | *2011* *US$* | *2010* *US$* |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (33,506,970) | 10,367,452 |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 – 28%) | (8,879,347) | 2,902,887 |
| *Effects of* | | |
| Non-taxable expenses/( income) | 9,173,606 | (2,098,382) |
| Adjustments in respect of previous years | – | 6,282 |
| Unrealised tax losses carried forward | 165,026 | – |
| Current tax for the year (note 8(a)) | 459,285 | 810,787 |

The company is in the Tonnage Tax regime 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 2011

At the balance sheet date there were unrecognised tax losses of $622,736 (2010 $nil) of which $622,736 (2010 $nil) related to non-trade loan relationship debits, resulting in a deferred tax asset of $155,684 arising in the company at 31 December 2011 However, no deferred tax asset has been recognised due to Management's uncertainty regarding the ability of the company to utilise this deferred tax asset

The Chancellor announced in the UK Budget on 21 March 2012 that the full rate of UK corporation tax would reduce from 25% to 24% from 1 April 2012 and then by a further 1% each year until the rate reaches 22% with effect from 1 April 2014 The effect of these rate reductions on the company deferred tax balance has not been reflected in these accounts due to the relevant legislation not having been substantially enacted at the balance sheet date A reduction to 22% would reduce the company's unrecognised deferred tax asset by approximately $18,000 to $137,000

# Notes to the financial statements

**at 31 December 2011**

## 9. Tangible fixed assets

| | *Leasehold improvements* | *Vessels under construction* | *Vessels* | *Furniture and equipment* | *Total* |
|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| Cost | | | | | |
| At 1 January 2011 | 285,746 | 127,335,858 | 291,006,288 | 335,220 | 418,963,112 |
| Additions | – | 171,842,055 | 176,231,292 | 96,546 | 348,169,893 |
| Disposals/transfers | – | (181,477,160) | – | – | (181,477,160) |
| At 31 December 2011 | 285,746 | 117,700,753 | 467,237,580 | 431,766 | 585,655,845 |
| Depreciation | | | | | |
| At 1 January 2011 | 136,732 | – | 59,243,909 | 165,281 | 59,545,922 |
| Charge for the year | 57,150 | – | 23,221,995 | 87,396 | 23,366,541 |
| At 31 December 2011 | 193,882 | – | 82,465,904 | 252,677 | 82,912,463 |
| Net book value | | | | | |
| At 31 December 2011 | 91,864 | 117,700,753 | 384,771,676 | 179,089 | 502,743,382 |
| At 1 January 2011 | 149,014 | 127,335,858 | 231,762,379 | 169,939 | 359,417,190 |

No depreciation is provided for fixed assets under construction

Included in additions under "Vessels" above is an amount of $6,720,758 relating to financing costs capitalised during the year

## 10. Stocks

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Stocks | 9,754,507 | 6,879,100 |

Stocks consist of bunker fuel oil and diesel fuel oil

## 11. Debtors

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Trade debtors | 8,147,826 | 8,771,608 |
| Prepayments and accrued income | 38,128,002 | 29,840,665 |
| Loans owed by group undertakings | 26,422,516 | 71,984,821 |
| Amounts owed by group undertakings | 490,569 | 615,882 |
| Amounts owed by related party undertakings | 1,771,341 | – |
| Corporation tax receivable | – | 397,997 |
| | 74,960,254 | 111,610,973 |

# Notes to the financial statements

**at 31 December 2011**

## 12 Creditors: amounts falling due within one year

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Bank loan (note 14) | 27,805,485 | 17,745,038 |
| Trade creditors | 9,515,691 | 6,078,590 |
| Amounts owed to group undertakings | 975,079 | 1,075,341 |
| Accruals and deferred income | 18,685,494 | 21,380,875 |
| Corporation tax payable | 63,551 | – |
| Other creditors | 12,426,470 | 126,676 |
| | 69,471,770 | 46,406,520 |

## 13. Creditors: amounts falling due after more than one year

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Loans (note 14) | 305,305,725 | 189,513,007 |

## 14. Loans

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Amounts repayable | | |
| In one year or less or on demand | 27,805,485 | 17,745,038 |
| In more than one year but not more than two years | 27,805,485 | 17,745,038 |
| In more than two years but not more than five years | 210,141,779 | 144,829,244 |
| | 265,752,749 | 180,319,320 |
| In more than five years | 67,358,461 | 26,938,725 |
| | 333,111,210 | 207,258,045 |

The first loan of $34,003,769 (JPY2,616,250,000) is repayable by 2016 in 16 equal instalments $17,936,054 (JPY1,380,000,000) and 1 final instalment of $16,067,715 (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 vessel

The second loan of $25,198,206 (JPY1,938,750,000) is repayable by 2016 in 17 equal instalments $13,671,367 (JPY1,051,875,000) and 1 final instalment of $11,526,839 (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 vessel

The third loan of $61,736,418 (JPY4,750,000,000) is repayable by 2014 in 9 equal instalments $11,112,555 (JPY855,000,000) and 1 final instalment of $50,623,863 (JPY3,895,000,000) The rate of interest payable on the loan is 0 70% above LIBOR The loan is secured by a fixed charge over the vessel

The fourth loan of $78,845,854 (JPY6,066,400,000) is repayable by 2014 in 11 equal instalments $16,684,429 (JPY1,283,700,000) and 1 final instalment of $62,161,424 (JPY4,782,700,000) The rate of interest payable on the loan is 0 65% above LIBOR The loan is secured by a fixed charge over the vessel

# Notes to the financial statements

**at 31 December 2011**

## 14 Loans (continued)

The fifth new loan of $41,774,890 (JPY3,214,160,000) is repayable by 2020 in 37 equal instalments $26,651,157 (JPY2,050,540,000) and 1 final instalment of $15,123,733 (JPY1,163,620,000) The rate of interest payable on the loan is 0 575% above LIBOR The loan is secured by a fixed charge over the vessel

The sixth new loan of $60,577,073 (JPY4,660,800,000) is repayable by 2021 in 38 equal instalments $39,116,194 (JPY3,009,600,000) and 1 final instalment of $21,460,879 (JPY1,651,200,000) The rate of interest payable on the loan is 0 55% above LIBOR The loan is secured by a fixed charge over the vessel

The seventh new loan of $30,975,000 is repayable by 2021 in 38 equal instalments $19,950,000 and 1 final instalment of $11,025,000 The rate of interest payable on the loan is 0 60% above LIBOR The loan is secured by a fixed charge over the vessel

## 15. Issued share capital

| | | *2011* | | *2010* |
|---|---|---|---|---|
| *Allotted, called up and fully paid* | *No* | *US$* | *No* | *US$* |
| Ordinary shares of £1 each | 19,989,662 | 33,979,116 | 19,989,662 | 33,979,116 |

The 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

## 16. Reconciliation of shareholder's funds and movements on reserves

| | *Share capital* | *Profit and loss account* | *Total share-holder's funds* |
|---|---|---|---|
| | *US$* | *US$* | *US$* |
| At 1 January 2010 | 33,979,116 | 233,088,797 | 267,067,913 |
| Profit for the year | – | 9,556,665 | 9,556,665 |
| At 1 January 2011 | 33,979,116 | 242,645,462 | 276,624,578 |
| Loss for the year | – | (33,966,254) | (33,966,254) |
| At 31 December 2011 | 33,979,116 | 208,679,208 | 242,658,324 |

# Notes to the financial statements

**at 31 December 2011**

## 17. 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 A new bunker swap agreement was entered into toward the end of the year The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows

| | *2011* | *2010* |
|---|---|---|
| | *US$* | *US$* |
| Interest rate swaps | (1,545,648) | (641,609) |
| Forward foreign currency contracts | (7,401,351) | (9,100,245) |
| Bunker swap agreement | 54,375 | – |

## 18. Capital commitments

Amounts contracted for but not provided in the financial statements for the construction of new vessels amounted to US$347m (2010 – US$589m)

## 19 Pensions

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 US$77,262 (2010 – US$41,060) The amount of outstanding contributions at the year end was US$ nil (2010 – US$ nil)

## 20. Other financial commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as set out below

| | | *2011* | | *2010* |
|---|---|---|---|---|
| | *Land and buildings* | *Vessel hire* | *Land and buildings* | *Vessel hire* |
| | *US$* | *US$* | *US$* | *US$* |
| Operating leases which expire | | | | |
| Within one year | – | 2,511,120 | – | 16,431,300 |
| In two to five years | 567,445 | 89,393,717 | 571,826 | 64,080,687 |
| Over five years | – | 28,766,073 | – | 28,459,558 |

# Notes to the financial statements

**at 31 December 2011**

## 21. Related party transactions

The company has taken advantage of the exemption available in FRS 8 from disclosing transactions with related parties, 100% or more of whose voting rights are controlled within the Kawasaki Kisen Kaisha Limited group

Together with Cardinal Shipping Limited, "K" Line Bulk Shipping (UK) Limited entered into a partnership under the name of "E&K Amanda Partners" The main purpose of the partnership is to manage and operate a cape size vessel that is co-owned by each partner All profits or losses are to be shared equally between the partners

During the year, profit share of $1 75m (2010 $nil) has been included in the turnover (note 2) A management fee of $21k has been charged to E&K Amanda Partners At 31 December 2011, the balance receivable from E&K Amanda Partners amounted to $1 77m (2010 $nil)

## 22 Events since the balance sheet date

Following the delivery of a new vessel on 27 January 2012, "K" Line Bulk Shipping (UK) Ltd entered into new loan agreements totalling USD31 5m with Mizuho Corporate Bank Ltd and The Bank of Tokyo-Mitsubishi UFJ Ltd Both loans have a maturity date of 27 January 2022 with an interest rate of LIBOR+margin and are secured by a fixed charge over the vessel

## 23 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, Iino Building, 1-1, Uchisaiwaicho 2-Chome, Chiyoda-ku, Tokyo 100-8540, Japan