

**PRIDE SHIPPING LIMITED
REPORT AND FINANCIAL STATEMENTS**

January 31, 2006



Pride Shipping Limited

Contents

	Page
Report of the Director	1-2
Statement of Director's Responsibilities	3
Report of the Auditors	4
Profit and Loss Account	5
Balance Sheet	6
Notes to the Financial Statements	7 to 11

Pride Shipping Limited

Director

Alan Bekhor

Secretary

Harish Chikhlia

Registered Office

25 Dorset Square, London NW1 6QG

Auditors

Moore Stephens LLP
Chartered Accountants
St. Paul's House, Warwick Lane, London, EC4M 7BP

Report of the Director

The director presents his report and the audited financial statements of the company for the year ended 31 January 2006.

Review of Activities and Business Review

The principal activity of the company during the period was that of vessel operators. The company also enters into forward freight agreements to reduce exposure to freight movements. The director does not anticipate any change in the activities in the foreseeable future.

Results and Dividend

The company made a profit on ordinary activities before taxation of U.S.\$6,805,759 for the year (2005: U.S.\$ 2,288,009).

The director does not recommend the payment of a dividend.

Directors

Mr A Bekhor has served as a director throughout the year.

Director's Interest

The director had no interest, as defined by the Companies Act 1985, in the share capital of the company at the beginning or end of the year.

Mr A Bekhor has a beneficial interest in the entire issued share capital of Verney Services Limited which owns 100% of the company's ordinary shares.

Pride Shipping Limited

Report of the Director (Continued)

Risk Management and Control

In the ordinary course of business, the company is exposed to and manages a variety of risks in relation to its activities. The management of risk - operational, market, interest rate, liquidity, credit, currency and reputational is fundamental to the company, with management having responsibility for the overall system of internal control and for reviewing its effectiveness.

The key areas of risk in relation to the use of financial instruments comprise credit risk (losses due to inability or unwillingness of a customer to meet its obligations), interest risk (fluctuations in the prevailing levels of market rates of interest on its financial position and cashflows), liquidity risk (failure to meet financial obligations in a timely and cost effective manner due to mismatches in the maturity profile of assets and liabilities) and currency risk (adverse movements in exchange rates that will result in a decrease in the value of foreign exchange assets, or an increase in the value of foreign currency liabilities).

Auditors

On 3rd October 2005, Moore Stephens, the company's auditor transferred its entire business to Moore Stephens LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The director consented to treating the appointment of Moore Stephens as extending to Moore Stephens LLP with effect from 3rd October 2005. A resolution to re-appoint Moore Stephens LLP as the company's auditor will be put to the forthcoming annual general meeting.

By Order of the Board on 3 July 2006



H. CHIKHLIA

Secretary

Pride Shipping Limited

Statement of Director's Responsibilities

Company law requires the director to prepare financial statements for each financial period which 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 those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable him to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Shareholder of Pride Shipping Limited

We have audited the financial statements of Pride Shipping Limited for the period ended 31 January 2006 set out on pages 5 to 11. 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 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 the director and auditors

As described in the Statement of Director's Responsibilities the company's director is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 if, in our opinion, the Director's Report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the Director's 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 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, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2006 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

St. Paul's House
London, EC4M 7BP

4th August 2006



MOORE STEPHENS LLP

Registered Auditor
Chartered Accountants

Pride Shipping Limited

**Profit and Loss Account
For the year ended 31 January 2006**

(Expressed in U.S.\$)

			Period 11 March 2004 to January 31, 2005
	<u>Note</u>	<u>2006</u>	<u>2005</u>
Turnover	2(b)	9,171,487	5,745,655
Cost of sales		-2,281,580	-3,303,673
Gross Profit		6,889,907	2,441,982
Administration expenses		-235,639	-155,056
Operating Profit	3	6,654,268	2,286,926
Interest receivable	5	151,491	1,083
Profit on Ordinary Activities before Taxation		6,805,759	2,288,009
Taxation on profit on ordinary activities	6	-22,887	-8,900
Retained Profit for the Financial Year/Period		6,782,872	2,279,109

Summary of Profit and Loss Account

At 1 February 2005	2,279,109	0
Retained profit for the financial year/period	6,782,872	2,279,109
At 31 January 2006	9,061,981	2,279,109

There are no recognised gains or losses other than those included in the profit and loss account.

Pride Shipping Limited

**Balance Sheet
As at 31 January 2006**

(Expressed in U.S.\$)

	<u>Note</u>	<u>.2006</u>	<u>2005</u>
Current Assets			
Inventories		54,800	74,635
Debtors	7	746,259	2,131,411
Cash at bank and in hand		<u>8,970,082</u>	<u>2,225,183</u>
		9,771,141	4,431,229
Creditors, amounts falling due within one year	8	-709,158	-2,152,118
Net Current Assets		<u><u>9,061,983</u></u>	<u><u>2,279,111</u></u>
Capital and Reserves			
Called up share capital	9	2	2
Profit and loss account		<u>9,061,981</u>	<u>2,279,109</u>
Equity Shareholder's Funds	10	<u><u>9,061,983</u></u>	<u><u>2,279,111</u></u>

The financial statements were approved by the Board on 3 July 2006
and signed on its behalf by

A. BEKIOR

Director

Pride Shipping Limited

Financial Statements or the year ended 31 January 2006

Notes

1 Background and Trading Activities

Pride Shipping Limited was incorporated in the United Kingdom on 11 March 2004 and commenced trading on 28 April 2004 when the company entered into a bareboat charter arrangement with a third party to charter a 50,000 dwt bulk carrier, for an initial period of 7 years.

The vessel is employed on time and voyage charters.

2 Principal Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with Applicable Accounting Standards. The financial statements are stated in U.S. Dollars being the functional currency of the company.

(b) Turnover

Turnover represents hire and freight receivable.

Income from vessels on time charter is recognised up to the balance sheet date. Income relating to vessels on voyage charter in progress at the balance sheet date is accounted for on a pro-rata basis.

(c) Drydocking costs

Drydocking costs are capitalised and written off to the profit and loss account on a straight line basis over the drydocking cycle of between two and three years.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in first out basis.

(e) Foreign currencies

Transactions in foreign currencies are converted into U.S. Dollars at the rates ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are converted into U.S. Dollars at the rate of exchange ruling at the balance sheet date. All exchange differences have been dealt with in the profit and loss account.

(f) Derivatives

The company uses derivative financial instruments to reduce exposure to freight movements. The company does not hold or issue derivative financial instruments for speculative purposes. Gains and losses on forward freight agreements are recognised in the profit and loss account when they are realised.

Pride Shipping Limited

Financial Statements or the year ended 31 January 2006

Notes (Continued)

3 Operating Profit

The operating profit is stated after charging:

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Bareboat charter costs	1,089,466	538,640
Auditors' remuneration		
- Audit services	6,900	5,000
- Other	0	1,000
Realised (profits)/ losses on forward freight agreements (note 12)	-70,559	1,581,600

4. Director and Employees

The director received no remuneration in respect of his services as a director of the company during the period.

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Salaries and wages	358,140	195,055

The company employed 22 employees during the year (2005 Period: 22).

5. Interest Receivable

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Bank interest receivable	151,491	1,083

6. Taxation on Profit on Ordinary Activities

The company has entered the U.K. tonnage tax regime under which its ship owning and operating activities are taxed based on the net tonnage of vessels operated. Any income and profits outside the tonnage tax regime are taxed under the normal U.K. corporation tax rules.

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Overprovision in previous period	-2,113	0
Corporation tax	25,000	8,900
	<u>22,887</u>	<u>8,900</u>

Pride Shipping Limited

Financial Statements for the year to 31 January 2006

Notes (Continued)

7 Debtors

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Trade debtors	1,048	359,746
Amount due from parent company	180,090	0
Amount due from related undertaking	261,914	1,509,666
Other debtors	29,441	13,787
Prepayments	273,766	248,212
	<u>746,259</u>	<u>2,131,411</u>

In addition to the amount due from its parent company, the company has provided a short term loan to Ocean Bulk Carriers Limited, a company registered in the United Kingdom and owned by Mr A Bekhor. The loans are unsecured, interest free and repayable on demand.

8 Creditors, amounts falling due within one year

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
Trade creditors	165,659	267,973
Amount due to parent undertaking	0	1,581,598
Amount due to related undertaking	109,531	0
Corporation tax	25,000	8,900
Accruals and deferred income	408,968	293,647
	<u>709,158</u>	<u>2,152,118</u>

The parent company has provided a short term loan to the company. A related undertaking, registered in the United Kingdom and owned by Mr A Bekhor, has also provided a short term loan to the company. The loans are unsecured, interest free and repayable on demand.

9 Share Capital

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1,824	1,824
<i>Issued and fully paid</i>		
1 ordinary share of £1 each	2	2

Pride Shipping Limited

Financial Statements or the year ended 31 January 2006

Notes (Continued)

10 Movement in Equity Shareholder's Funds

	<u>2006</u> U.S.\$	<u>2005</u> U.S.\$
At 1 February 2005	2,279,111	0
Share capital issued	0	2
Retained profit for the year/period	6,782,872	2,279,109
At 31 January 2006	<u>9,061,983</u>	<u>2,279,111</u>

11 Lease Commitment

The company has the following annual commitment under a non-cancellable bareboat charter agreement, which expires in 2011.

More than five years	U.S.\$	1,089,468
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The company's parent company has guaranteed the obligations under the above agreement.

12 Other commitments

The company, in accordance with its policy to use derivatives to minimise exposure to freight movements, enters into forward freight agreements.

Realised profits on completed forward freight agreements during the year ended 31 January 2006 relating to the company amounted to U.S.\$0.1 million (2005 period: Loss U.S.\$1.6 million).

At 31 January 2006 there were outstanding freight forward agreements in place, with a fair value of U.S.\$0.5 million (2005: U.S.\$0.5 million) which was an unrealised profit at the balance sheet date. In accordance with the company's accounting policy relating to derivatives, this amount has not been recognised in the financial statements.

13 Related Party Transactions

In addition to the transactions reported in notes 7, 8, 11 and 12 above, Ocean Bulk Carriers Limited, a company registered in the United Kingdom and owned by Mr A Bekhor, carries out husbandry and administration activities on behalf of the company. In the year to 31 January 2006 the amount charged to the company relating to these activities amounted to U.S.\$192,457 (2005: U.S.\$62,535).

Advantage has been taken of the exemption from disclosing transactions with the parent company as more than 90% of the ordinary shares in Pride Shipping Limited are held by that company, and the holding company produces consolidated accounts which are publicly available.

Pride Shipping Limited

Financial Statements for the year ended 31 January 2006

Notes (Continued)

14 Ultimate Holding Company and Controlling Shareholder

The ultimate holding company of Pride Shipping Limited is Verney Services Limited, which is registered in England. The ultimate controlling party is Mr A Bekhor.