4830352

"K" Line Bulk Shipping (UK) Limited

Report and Financial Statements

31 December 2006

Registered No 4830352

Directors

H Nagayama
Captain T Igarashi
H Yasui

Secretary

R J R Dowding

Auditors

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
12-15 Finsbury Circus
London
EC2M 7BT

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
11 Queen Victoria Street
London
EC4N 4TA

Registered office

5th Floor
River Plate House
7-11 Finsbury Circus
London
EC2M 7EA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Results and dividends

The profit for the year, after taxation, amounted to \$26,864,000(2005 - \$8,313,000) 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 company's key financial performance indicators during the year were as follows

	2006	2005	Change
	\$000	\$000	%
Company turnover	98,411	15,430	538%
Profit after tax	26,864	8,313	223%
Shareholders' funds	68,557	30,979	121%
Cash at bank	16,236	4,184	288%

Turnover increased by 538% during the year primarily due to the expansion of the business from the beginning of the year During 2005, one vessel was owned and was bare boat chartered out, during the current year, the same vessel was time chartered out as well as 2 new vessels (Cape Med from 31 January 2006 and Cape Dover from 28 April 2006) Furthermore, the increase in turnover can be attributed to 4 additional vessels chartered in during the year Another major factor is that the market rate for freight has increased during the year

Cash balances have increased significantly as a result of increased turnover The increased cash in-flow helped to generate interest receivable of around \$733,000 and at the same time the advance repayment of loans for the acquisition of vessels

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

On 23 June 2006, 5,874,123 ordinary shares of £1 were allotted to "K" Line Holding (Europe) Limited

With effect from 1 January 2006, the Company has taken over the bulk vessel operation business and related assets and liabilities from Polar LNG Shipping (UK) Limited (formerly "K" Line (Europe) Limited)

Directors

The directors who served the company during the year were as follows

F Kawamata	(resigned 1 January 2006)
K Terashima	(resigned 1 January 2006)
H Nagayama	(appointed 1 January 2006)
K Sakamoto	(served from 1 January 2006 to 31 December 2006)
Captain T Igarashi	(appointed 1 January 2006)

Subsequent to the period end, the following director was appointed

H Yasui	(appointed 1 April 2007)

There are no directors' interests requiring disclosure under the Companies Act 1985

Directors' report

Change of reporting currency

As a result of the re-structuring discussed above, the directors have prepared and presented these financial statements in US$ rather than JPY This decision was taken in order to align the new presentational currency with the currency that underline the majority of the company's business transactions The effects on the results for the year, and on the comparative figures included in these financial statements, are more fully disclosed in note 1

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 group'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

- 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

Directors' report

- 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' 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

RJR Dowding
Secretary
2007

0 9 MAY 2007

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,
- 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

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 2006 which comprise the Profit and Loss Account, the Statement of Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 20 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 (continued)

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 2006 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

10 MAY 2007

Profit and loss account
for the year ended 31 December 2006

		2006 $'000	Restated 2005 $'000
Turnover	2	98,411	15,430
Cost of sales		60,963	3,178
Gross profit		37,448	12,252
Administrative expenses		(425)	100
Operating profit	3	37,023	12,352
Interest receivable	6	733	42
Interest payable and similar charges	7	(886)	(531)
Foreign exchange gains on retranslation of loans		1,537	–
		1,384	(490)
Profit on ordinary activities before taxation		38,407	11,863
Tax on profit on ordinary activities	8	(11,543)	(3,550)
Profit for the financial year		26,864	8,313

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 $'000	Restated 2005 $'000
Profit for the financial year attributable to members of the company	26,864	8,313
Exchange difference arising on change in functional currency	(4,379)	–
Total gains and losses recognised since last annual report	22,485	

Balance sheet
at 31 December 2006

	Notes	2006 $'000	Restated 2005 $'000
Fixed assets			
Tangible assets	9	154,259	78,874
Current assets			
Debtors	10	4,899	5,314
Cash at bank		16,236	4,184
		21,135	9,498
Creditors: amounts falling due within one year	11	22,288	3,936
Net current (liabilities)/assets		(1,153)	5,562
Total assets less current liabilities		153,106	84,436
Creditors amounts falling due after more than one year	12	71,787	48,207
Provisions for liabilities	8(c)	12,762	5,250
		68,557	30,979
Capital and reserves			
Called up share capital	14	33,979	23,265
Profit and loss account	15	34,578	7,714
Shareholders' funds	15	68,557	30,979

H. Nagayama

Director

0 9 MAY 2007

2007

Notes to the financial statements
at 31 December 2006

1. Accounting policies

Basis of preparation

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

Reporting currency – comparative figures

In the opinion of the directors, the functional currency of the company effectively changed from JPY to US$ at 1 January 2006 Accordingly, from 1 January 2006, the reporting currency of the company has changed to US$ The 2005 comparative figures have been converted into US$ using the rate applicable at 31 December 2005

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement 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

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 Japanese Yen 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

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

Notes to the financial statements
at 31 December 2006

1. Accounting policies (continued)

Continuing operations and acquisitions
The directors have not provided disclosures split between continuing operations and acquisitions in accordance with Financial Reporting Standard 3 "Reporting Financial Performance" as they believe that the operating costs of the company are not separable into component parts

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

	2006 *$'000*	*Restated* 2005 *$'000*
United Kingdom	24,554	15,430
Europe	60,415	–
Rest of the world	13,442	–
	98,411	15,430

3. Operating profit
This is stated after charging/(crediting)

	2006 *$'000*	*Restated* 2005 *$'000*
Depreciation	7,276	2,960
Auditors' remuneration is analysed as follows		
Audit of the financial statements	76	10
Other fees to auditors - taxation services	22	23
Foreign exchange (gains)	(4,720)	(242)

4. Staff costs

	2006 *$'000*	*Restated* 2005 *$'000*
Wages and salaries	588	–
Social security costs	35	–
Other pension costs	16	–
	639	–

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

	2006 *No*	2005 *No*
Administrative staff	6	–

Notes to the financial statements
at 31 December 2006

5. Directors' emoluments

	2006	Restated 2005
	$000	*$000*
Emoluments	153	–

6. Interest receivable

	2006	Restated 2005
	$'000	*$'000*
Bank interest receivable	733	42

7. Interest payable and similar charges

	2006	Restated 2005
	$'000	*$'000*
Bank interest payable	886	531

Notes to the financial statements
at 31 December 2006

8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2006 *$'000*	*Restated* 2005 *$'000*
Current tax		
UK corporation tax	4,031	(2,087)
Total current tax (note 8(b))	4,031	(2,087)
Deferred tax		
Origination and reversal of timing differences (note 8(c))	7,512	5,637
Tax on profit on ordinary activities	11,543	3,550

(b) Factors affecting current tax charge/(credit)

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are reconciled below

	2006 *$'000*	*2005* *$'000*
Profit on ordinary activities before tax	38,407	11,861
Profit on ordinary activities by standard rate of tax	11,522	3,559
Group relief for nil consideration	–	–
Disallowable expenses	21	(9)
Capital allowances in excess of depreciation	(7,512)	(5,637)
Total current tax (note 8(a))	4,031	(2,087)

Notes to the financial statements
at 31 December 2006

8. Taxation (continued)
(c) Deferred tax

	2006 *$'000*	*2005* *$'000*
Capital allowances in advance of depreciation	12,762	5,637
Provision for deferred taxation	12,762	5,637

	$'000
At 1 January 2006 – as restated	5,250
Profit and loss account movement arising during the year	7,512
At 31 December 2006	12,762

9. Tangible fixed assets

	Vessels	*Vessels under construction*	*Total*
	$'000	*$'000*	*$'000*
Cost			
At 1 January 2006 – as restated	50,072	31,762	81,834
Additions	–	82,661	82,661
Transfers	88,263	(88,263)	-
At 31 December 2006	138,335	26,160	164,495
Depreciation			
At 1 January 2006 – as restated	2,960	–	2,960
Provided during the year	7,276	–	7,276
At 31 December 2006	10,236	–	10,236
Net book value			
At 31 December 2006	128,099	26,160	154,259
At 1 January 2006	47,112	31,762	78,874

No depreciation is provided for fixed assets under construction

10. Debtors

	2006 *$'000*	*Restated* *2005* *$'000*
Trade Debtors	573	–
Prepayments	4,255	–
Amounts owed by group undertakings	71	3,368
Corporation tax	–	1,944
Other debtors	–	2
	4,899	5,314

Notes to the financial statements
at 31 December 2006

11. Creditors: amounts falling due within one year

	2006 $'000	Restated 2005 $'000
Trade Creditors	1,054	–
Bank loan (note 13)	15,474	3,793
Amounts owed by group undertakings	299	6
Accruals and deferred income	3,464	137
Corporation tax	1,987	–
Other creditors	10	–
	22,288	3,936

12. Creditors: amounts falling due after more than one year

	2006 $'000	Restated 2005 $'000
Loans (note 13)	71,787	48,207

13. Loans

	2006 $'000	Restated 2005 $'000
Amounts repayable		
In one year or less or on demand	15,474	3,793
In more than one year but not more than two years	7,924	4,064
In more than two years but not more than five years	25,650	12,191
	49,048	20,048
In more than five years	38,213	31,952
	87,261	52,000

The first loan of $24,195,000 (¥2,884,000,000) is repayable by 2012 in one initial instalment of $8,289,000 (¥988,000,000), 19 equal instalments of $738,000 (¥88,000,000) and one final instalment of $1,884,000 (¥224,000,000) 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 $36,419,000 (¥4,341,250,000) is repayable by 2016 in 36 equal instalments of $724,000 (¥86,250,000) and 1 final instalment of $10,355,000 (¥1,236,250,000) 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 $26,646,000 (¥3,176,250,000) is repayable by 2016 in 37 equal instalments of $519,000 (¥61,875,000) and 1 final instalment of $7,440,000 (¥886,878,000) The rate of interest payable on the loan is 0 2% above LIBOR The loan is secured by a fixed charge over the vessels

Notes to the financial statements
at 31 December 2006

14. Share capital

				Authorised
		2006		*2005*
	No	*$'000*	*No*	*$'000*
Ordinary shares of £1 each	20,000,000	34,340	20,000,000	34,406

		Allotted, called up and fully paid		
		2006		*2005*
	No	*$'000*	*No*	*$'000*
Ordinary shares of £1 each	19,989,662	33,979	14,115,539	23,265

Changes in share capital reflect exchange differences on translation of comparative figures as detailed in note 15 and explained in note 1 under reporting currency

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

On 23 June 2006, 5,874,123 ordinary shares of £1 were allotted to "K" Line Holding (Europe) Limited

15. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss reserves*	*Total share-holders' funds*
	$'000	*$'000*	*$'000*
At 1 January 2005	27,073	(28)	27,045
Profit for the year	–	8,313	8,313
Translation differences	(3,808)	(571)	(4,379)
At 31 December 2005	23,265	7,714	30,979
Arising on share issues	10,714	–	10,714
Profit for the year	–	26,864	26,864
At 31 December 2006	33,979	34,578	68,557

As explained in note 1, the comparative figures for 2005 have been translated at the rate applicable on 31 December 2005 Consequently certain translation differences arise in respect of prior year GBP denominated share capital

Notes to the financial statements
at 31 December 2006

16. Acquisition of bulk business from Polar LNG Shipping (UK) Limited

On 1 January 2006, the company acquired the net assets of the bulk business of Polar LNG Shipping (UK) Limited for a consideration of $10,644,000 satisfied by cash The net assets of the bulk business have been included in the company's balance sheet at its fair value at the date of acquisition

Net assets at the date of acquisition

	Book and fair value to company
	$'000
Cash at bank	14,034
Debtors	4,470
Trade creditors	(3,654)
Taxation	(677)
Intercompany	(3,529)
Net assets	10,644
Discharged by	
Cash	11,307
Exchange loss on settlement	(663)
	10,644

17. Capital commitments

Amounts contracted for but not provided in the financial statements for the construction of 3 new vessels amounted to $94,399,000 (2005 - $56,343,000)

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

	2006	*2005*
	$'000	*$'000*
Interest rate swaps	(82)	(143)
Forward foreign currency contracts	(83)	2,622

19. 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

Notes to the financial statements
at 31 December 2006

20. Ultimate parent company

The immediate parent company 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 company 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, Japan