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"K" Line Bulk Shipping (UK) Limited

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

Registered No 4830352

Directors
H Yasui
N Shiba
Captain T Igarashi

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
99 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 2007

Results and dividends

The profit for the year, after taxation, amounted to US$57,875,000 (2006 – $26,864,000) 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 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

	2007 $000	2006 $000	Change %
Turnover	203,618	98,411	107%
Profit after tax	57,875	26,864	115%
Shareholders' funds	126,434	68,557	84%
Cash at bank	21,895	16,236	35%

Turnover increased by 107% 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 early repayment of loans for vessels acquired, 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 They consider that 2008 will show a further significant growth in sales from continuing operations, particularly if the market rate for freight remains at a high level

Directors

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

H Yasui	(appointed 1 April 2007)
N Shiba	(appointed 1 April 2008)
H Nagayama	(resigned 31 March 2008)
Captain T Igarashi	

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 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

- 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

Auditors

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

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

By order of the board

Secretary

15 APR 2008

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

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 2007 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 2007 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
Registered Auditor
London

16 APR 2008

Profit and loss account

for the year ended 31 December 2007

		2007 $000	2006 $000
Turnover	2	203,618	98,411
Cost of sales		(116,201)	(60,963)
Gross profit		87,417	37,448
Administrative expenses		(2,708)	(425)
Operating profit	3	84,709	37,023
Interest receivable	6	1,730	733
Interest payable and similar charges	7	(984)	(886)
Foreign exchange (losses)/gains on retranslation of loans		(4,822)	1,537
Profit on ordinary activities before taxation		80,633	38,407
Tax on profit on ordinary activities	8	(22,758)	(11,543)
Profit for the financial year		57,875	26,864

Statement of total recognised gains and losses

	2007 $000	2006 $000
Profit for the financial year attributable to members of the company	57,875	26,864
Exchange difference arising on change in functional currency	-	(4,379)
Total gains and losses recognised since last annual report	57,875	22,485

Balance sheet

at 31 December 2007

	Notes	2007 $000	2006 $000
Fixed assets			
Tangible assets	9	203,882	154,259
Current assets			
Stocks	10	4,881	815
Debtors	11	19,532	4,084
Cash at bank		21,895	16,236
		46,308	21,135
Creditors amounts falling due within one year	12	(35,233)	(22,288)
Net current assets/(liabilities)		11,075	(1,153)
Total assets less current liabilities		214,957	153,106
Creditors amounts falling due after more than one year	13	(68,151)	(71,787)
Provisions for liabilities	8(c)	(20,372)	(12,762)
		126,434	68,557
Capital and reserves			
Called up share capital	15	33,979	33,979
Profit and loss account	16	92,455	34,578
Shareholders' funds	16	126,434	68,557

Director

15 APR 2008

Notes to the financial statements

at 31 December 2007

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$

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 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 1 991 at 31 December 2007

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 2007

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

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

	2007	*2006*
	$000	*$000*
United Kingdom	36,646	24,554
Europe	117,999	60,415
Rest of the world	48,973	13,442
	203,618	98,411

3. Operating profit

This is stated after charging/(crediting)

	2007	*2006*
	$000	*$000*
Depreciation	8,309	7,276
Operating lease rentals – land and buildings	-	-
Operating lease rentals – vessel hire	79,596	-
Auditors' remuneration is analysed as follows		
Audit of the financial statements	49	76
Other fees to auditors - taxation services	47	22
Foreign exchange loss/(gains)	4,902	(4,720)

Notes to the financial statements

at 31 December 2007

4. Staff costs

	2007	*2006*
	$000	*$000*
Wages and salaries	1,217	588
Social security costs	39	35
Other pension costs	23	16
	1,279	639

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

	2007	*2006*
	No	*No*
Administrative staff	6	6

5. Directors' emoluments

	2007	*2006*
	$000	*$000*
Emoluments	467	153
Company contributions paid to personal money purchase pension schemes	-	-

Numbers of directors in respect of whom contributions were made in the year

	No	*No*
Pension contributions	-	-

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

	2007	*2006*
	$000	*$000*
Emoluments	334	153
Company contributions paid to personal money purchase pension schemes	-	-

Notes to the financial statements

at 31 December 2007

6. Interest receivable

	2007 $000	2006 $000
Bank interest receivable	1,730	733

7. Interest payable and similar charges

	2007 $000	2006 $000
Bank interest payable	984	886

8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007 $000	2006 $000
Current tax		
UK corporation tax	15,148	4,031
Total current tax (note 8(b))	15,148	4,031
Deferred tax		
Origination and reversal of timing differences (note 8(c))	7,610	7,512
Tax on profit on ordinary activities	22,758	11,543

(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 30% (2006 – 30%) The differences are reconciled below

	2007 $000	2006 $000
Profit on ordinary activities before tax	80,633	38,407
Profit on ordinary activities by standard rate of tax	24,190	11,522
Group relief for nil consideration	-	–
Disallowable expenses	23	20
Capital allowances in excess of depreciation	(9,065)	(7,512)
Total current tax (note 8(a))	15,148	4,031

Notes to the financial statements

at 31 December 2007

8. Taxation (continued)

(c) Deferred tax

	2007 $000	2006 $000
Capital allowances in advance of depreciation	20,372	12,762
Provision for deferred taxation	20,372	12,762

	$000
At 1 January 2007	12,762
Profit and loss account movement arising during the year	7,610
At 31 December 2007	20,372

9 Tangible fixed assets

	Vessels	*Vessels under construction*	*Total*
	$000	*$000*	*$000*
Cost			
At 1 January 2007	138,335	26,160	164,495
Additions	885	57,047	57,932
At 31 December 2007	139,220	83,207	222,427
Depreciation			
At 1 January 2007	10,236	-	10,236
Provided during the year	8,309	-	8,309
At 31 December 2007	18,545	-	18,545
Net book value			
At 31 December 2007	120,675	83,207	203,882
At 1 January 2007	128,099	26,160	154,259

No depreciation is provided for fixed assets under construction

Notes to the financial statements

at 31 December 2007

10. Stocks

	2007 $000	2006 $000
Stocks	4,881	815
	4,881	815

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

11. Debtors

	2007 $000	2006 $000
Trade debtors	7,353	573
Prepayments and accrued income	12,179	3,440
Amounts owed by group undertakings	-	71
	19,532	4,084

12 Creditors: amounts falling due within one year

	2007 $000	2006 $000
Bank loan (note 14)	8,456	15,474
Trade creditors	2,294	1,054
Amounts owed to group undertakings	822	299
Accruals and deferred income	13,846	3,464
Corporation tax payable	9,780	1,987
Other creditors	35	10
	35,233	22,288

13 Creditors: amounts falling due after more than one year

	2007 $000	2006 $000
Loans (note 14)	68,151	71,787

Notes to the financial statements

at 31 December 2007

14 Loans

	2007 $000	2006 $000
Amounts repayable		
In one year or less or on demand	8,456	15,474
In more than one year but not more than two years	8,456	7,924
In more than two years but not more than five years	24,221	25,650
	41,133	49,048
In more than five years	35,474	38,213
	76,607	87,261

The first loan of $14,610,564 (¥1,632,000,000) is repayable by 2012 in 16 equal instalments of $787,825 (¥88,000,000) and one final instalment of $2,005,000 (¥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 $35,776,633 (¥3,996,250,000) is repayable by 2016 in 32 equal instalments of $772,000 (¥86,250,000) and 1 final instalment of $11,067,000 (¥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 $26,219,785 (¥2,928,750,000) is repayable by 2016 in 33 equal instalments of $553,939 (¥61,875,000) and 1 final instalment of $7,939,794 (¥886,875,000) 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 Share capital

		Authorised	
		2007	2006
	No	$000	$000
Ordinary shares of £1 each	20,000,000	34,340	34,340

	Allotted, called up and fully paid			
	2007		2006	
	No	$000	No	$000
Ordinary shares of £1 each	19,989,662	33,979	19,989,662	33,979

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 2007

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital $000	*Profit and loss reserves $000*	*Total share-holders' funds $000*
At 1 January 2006	23,265	7,714	30,979
Arising on share issues	10,714	-	10,714
Profit for the year	-	26,866	26,866
At 31 December 2006	33,979	34,580	68,559
Profit for the year	-	57,875	57,875
At 31 December 2007	33,979	92,455	126,434

17. Capital commitments

Amounts contracted for but not provided in the financial statements for the construction of three new vessels amounted to $199,000,000 (2006 – $94,399,000)

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

	2007 $000	*2006 $000*
Interest rate swaps	(279)	(82)
Forward foreign currency contracts	195	(83)

19. Operating lease commitments

At 31 December 2007, the company had annual commitments under non-cancellable operating leases as follows

	2007		*2006*	
	Land and buildings $000	*Vessel hire $000*	*Land and buildings $000*	*Vessel hire $000*
Operating leases which expire				
Within one year	-	30,315	-	989
Between two and five years	-	30,624	-	8,943
In more than five years	-	24,019	-	18,267

Notes to the financial statements

at 31 December 2007

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 $23,000 (2006 - $16,000) The amount of outstanding contributions at the year end was $nil (2006- $nil)

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