

# **“K” Line Bulk Shipping (UK) Limited**

## **Report and Financial Statements**

31 March 2015

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## Company Information

### Directors

N Fujii

### Secretary

B Y Ramlalsing

### Independent Auditor

PricewaterhouseCoopers LLP

1 Embankment Place

London WC2N 6RH

### Bankers

Mizuho 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

Sumitomo Mitsui Trust Bank, Limited

155 Bishopsgate

London EC2M 3XU

Mitsubishi UFJ Trust and Banking Corporation

24 Lombard Street

London EC3V 9AJ

Sumitomo Mitsui Banking Corporation Europe Limited

99 Queen Victoria Street

London EC4V 4EH

### Registered Office

6<sup>th</sup> Floor

200 Aldersgate Street

London

EC1A 4HD

Registered No. 4830352

## **Strategic report**

The Directors present their Strategic report of "K" Line Bulk Shipping (UK) Limited (the "Company") for the financial year ended 31 March 2015.

### **Results and dividends**

The loss for the year after taxation amounted to US\$69,485,682 (year ended 31 March 2014 – profit of US\$3,652,832). The Directors do not recommend a final dividend (year ended 31 March 2014 – US \$nil).

### **Principal activities and Review of the business**

The principal activities of the Company are the chartering and ownership of bulk vessels. During the year the Company also had a bulk vessel under construction, and continued to jointly own and operate a capesize bulk vessel in partnership with EDF.

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:

	<i>Year ended 31 March 2015 \$000</i>	<i>Year ended 31 March 2014 \$000</i>	<i>Change %</i>
Turnover	237,912	240,218	(1%)
(Loss)/Profit after tax	(69,486)	3,653	(2002%)
Shareholder's funds	218,776	287,699	(24%)
Cash at bank and in hand	74,056	98,172	(25%)

Turnover decreased by 1% during the year as a result of the market rate for freight during the year being volatile and lower than the previous years. The significant loss for the year is mainly attributed to recognising a first time impairment loss amounting to \$55m in relation to the vessels. The cash balance decreased significantly as a result of the low freight rates, volatile market conditions and additional financing of a vessel under construction.

### **Future developments**

The company's overall business is expected to develop in the same direction over the coming year and to the same extent as in 2015.

### **Principal risks and uncertainties**

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

#### **Competitive risks**

The bulk carrier industry is competitive with intense competition to secure contracts and profitable rates. The Company tries to minimise this risk with medium to long term contracts with a number of customers.

## Strategic report (continued)

### Legislative risks

In the UK and Europe, the main legislative risks are EU competition law, employment law, tax law, UK Bribery Act, low sulphur fuel regulations and shipping legislation, mostly originating from IMO (International Maritime Organization). These standards are subject to continuous revision; however, they are not expected to have a material impact on the Company's activities or ability to generate a profit.

### Financial risks

The principal risks and uncertainties faced by the Company include the residual value of owned and finance leased vessels at the time of disposal. The Company undertakes an annual impairment review of the carrying value and useful economic life of all ship assets, using value in use assessments.

### Treasury operations and financial instruments

Ships are financed by way of third party bank loans, inter-group loans and by way of finance leases. Borrowings are undertaken at variable rates. To the extent not covered by derivative instruments the Company is therefore exposed to fluctuations in interest rates.

The Company operates a treasury function which is responsible for managing the liquidity, credit and market/price risks associated with the Company's activities.

The Company has established a risk and financial management framework whose primary objectives are to mitigate the exposure of the Company to risks 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. This is done through the type of derivative financial instruments as planned currency exposures arising from material transactions which are not denominated in USD.

### Market/price risk

The Company uses interest rate swaps to mitigate interest rate exposure by fixing interest payments where payments are variable and hence exposed to interest rate movements. The Company also has in place forward freight agreement and a bunker swap agreement to minimise the risk of fluctuations in market freight rates and bunker fuel prices respectively (note 19).

### 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. Surplus funds are put on time deposits ranging from overnight to quarterly intervals.

## Strategic report (continued)

### 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.

On behalf of the Board



B Y Ramlalsing  
Secretary

Date: 15 May 2015

Registered No. 4830352

## Director's report

The Director presents the Director's Report and audited financial statements of "K" Line Bulk Shipping (UK) Limited (the "Company") for the financial year ended 31 March 2015.

### Directors

The Directors who served the Company during the year and as at the date of this report are as follows:

N Fujii

M Iwashita (Resigned – 30 September 2014)

### Future Development

The Company's overall business is expected to continue in the same direction over the coming year and to the same extent as 2015.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on page 2.

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

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

### Disclosure of information to the auditor

So far as the 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 the previous Director and the Company's auditor, the Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Independent Auditors

Ernst & Young LLP resigned as auditor on 10<sup>th</sup> February 2015 under Section 516 of Company Act 2006. The Director has then appointed PricewaterhouseCoopers LLP as the Company's auditor.

PricewaterhouseCoopers have expressed their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting.

On behalf of the Board



N Fujii  
Director

Date: 1-5 MAY 2015

## Statement of Director's responsibilities

The Director is responsible for preparing the Strategic report, the Director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has 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 Director must not approve the financial statements unless he is 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 year. In preparing these financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 Director is 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 him to ensure that the financial statements comply with the Companies Act 2006. 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 members of "K" Line Bulk Shipping (UK) Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, "K" Line Bulk Shipping (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 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.

#### **What we have audited**

"K" Line Bulk Shipping (UK) Limited's financial statements comprise:

- the Balance sheet as at 31 March 2015;
- the Profit and loss account for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic report and the Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Independent auditors' report (continued)**

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

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Director's responsibilities set out on page 6, the Director is 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an audit of financial statements involves**


We conducted our audit in accordance with ISAs (UK & Ireland). 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 Director; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Director's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Strategic report, Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Timothy McAllister (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

Date: 15 May 2015

## Profit and loss account

for the year ended 31 March 2015

		Year ended 31 March 2015 US\$	Year ended 31 March 2014 US\$
	Notes		
<b>Turnover</b>	2	237,912,381	240,218,360
Cost of sales		(249,589,435)	(247,610,074)
<b>Gross Loss</b>		(11,677,054)	(7,391,714)
Administrative expenses		(9,323,918)	(6,533,978)
Exceptional item	4	(55,000,000)	3,609,355
<b>Operating Loss</b>	3	(76,000,972)	(10,316,377)
Interest receivable and similar income	7	182,648	165,240
Interest payable and similar charges	8	(7,468,836)	(7,532,240)
Foreign exchange gain on retranslation of loans		13,873,339	21,662,990
<b>(Loss)/Profit on ordinary activities before taxation</b>		(69,413,821)	3,979,653
Tax	9	(71,861)	(326,821)
<b>(Loss)/Profit for the financial year</b>	18	(69,485,682)	3,652,832

All amounts relate to continuing activities.

There are no recognised gains or losses other than the loss attributable to the shareholder of the Company of US\$69,485,682 in the year ended 31 March 2015 (year ended 31 March 2014 – profit of US\$3,652,832). Consequently, no statement of total recognised gains and losses has been prepared.

As the results disclosed in the Profit and loss accounts are prepared on an unmodified historical cost basis, a note on historical cost profit and losses has not been included in these financial statements.

The notes on pages 12 to 24 form an integral part of these financial statements.

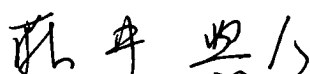
## Balance sheet

at 31 March 2015

	Notes	31 March 2015 US\$	31 March 2014 US\$
<b>Fixed assets</b>			
Tangible assets	10	581,203,472	635,185,795
<b>Current assets</b>			
Stocks	11	7,273,970	12,279,958
Debtors	12	40,599,630	43,127,271
Cash at bank and in hand		73,050,731	98,172,288
		<u>120,924,331</u>	<u>153,579,517</u>
<b>Creditors:</b> amounts falling due within one year	13	(69,446,388)	(110,006,544)
<b>Net current assets</b>		<u>51,477,943</u>	<u>43,572,973</u>
<b>Total assets less current liabilities</b>		632,681,415	678,758,768
<b>Creditors:</b> amounts falling due after more than one year	14	(414,468,079)	(391,059,750)
<b>Net assets</b>		<u>218,213,336</u>	<u>287,699,018</u>
<b>Capital and reserves</b>			
Called up share capital	17	33,979,116	33,979,116
Profit and loss account	18	184,234,220	253,719,902
<b>Shareholder's funds</b>	18	<u>218,213,336</u>	<u>287,699,018</u>

The notes on pages 12 to 24 form an integral part of these financial statements.

The financial statements on pages 10 to 24 were approved by the Board of Directors and were signed on their behalf by:



N Fujii

Director

Date: 15 MAY 2015

## Notes to the financial statements at 31 March 2015

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### ***Basis of preparation***

The financial statements are prepared in accordance with The Companies Act 2006 and Applicable Accounting Standards in the United Kingdom and under the historical cost convention.

The Director considers that the Company's functional currency is the US dollar because its business contracts, trading and financing transactions are principally in US\$. Since this is the operational currency the financial statements are presented in US\$.

#### ***Going concern***

The Director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus he continues to adopt the going concern basis of accounting in preparing the annual financial statements.

#### ***Statement of cash flows***

The Director has taken advantage of the exemption in FRS 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 ultimate parent undertaking publishes group financial statements which include the Company.

#### ***Tangible fixed assets***

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation commences from the point when the assets are available for use. Vessels under construction are not depreciated.

The cost of tangible fixed assets includes expenditures that are incurred during construction, delivery, modification and capitalised finance costs. The commencement date for capitalisation of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

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 to 20 years
Furniture and equipment	–	3 years to 5 years

The Company assesses Vessel assets for impairment whenever events or changes in circumstances indicate that the carrying value of a vessel may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the cash-generating unit is less than the carrying value of the vessel, the vessel is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

The Company's vessels are required to undergo periodic dry docking for replacement of certain components, major repairs and maintenance of other components. Dry-docking costs are recognised and capitalised at the total amount incurred at completion date. Amortisation of cost is allocated over the period until the next dry-docking which can range from 2-5 years.

## Notes to the financial statements at 31 March 2015

### 1. Accounting policies (continued)

#### *Capitalisation of interest*

Interest incurred on borrowings to finance the construction of vessels is capitalised. Once the vessel is delivered the interest is no longer capitalised.

#### *Impairment*

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. At the end of each financial reporting period, the Company assesses whether there is any indication that its vessels, other fixed assets and intangible assets may have suffered an impairment loss. If any indication exists, the Company estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or income-generating unit ("IGU") is estimated in order to determine the extent of any impairment loss.

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. An IGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level of the IGUs, the Company considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels. Based on the above the Company has determined at the reporting date it has IGUs comprising of individual vessels.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount at which assets may be disposed of on a willing seller, willing buyers' basis, less directly associated costs of disposal. In estimating fair value, the Company considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or IGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the IGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Such reversal is recognised in the income statement.

#### *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 March 2015

### 1. Accounting policies (continued)

#### **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.

#### **Finance leases**

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards of ownership.

Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as a finance lease liability. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the interest expense and the reduction of the outstanding liability. Interest expense, which represents the difference between the total leasing commitments and the fair value of assets acquired, is recognised as an expense in the Profit and loss account over the term of the relevant lease so as to produce a constant periodic rate of change on the remaining balance of the obligation for each accounting year.

#### **Operating leases**

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

#### **Foreign currencies**

Transactions in GBP 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 1.485 at 31 March 2015 (31 March 2014 – 1.667).

#### **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 March 2015

### 1. Accounting policies (continued)

#### ***Derivative instruments***

Derivatives are contracted for hedging purposes only and recognised at cost and amortised over the life of the investment.

The Company uses interest rate swap contracts to reduce interest rate exposures and forward freight agreements to minimise the impact of fluctuations in market rates and bunker swap contracts to minimise the impact of fluctuations in bunker prices. The Company has not elected to apply the fair value provision of UK GAAP and the Company does not recognise them at fair value.

Amounts payable and receivable in respect of these derivatives together with any amortisation are recognised as adjustments to interest income or payable over the period of the contracts.

Gains and losses on foreign currency hedges are recognised on the maturity of the underlying exposure. Gains and losses arising on hedge instruments, which are cancelled due to termination of underlying exposure, are recorded to the Profit and loss account immediately.

#### ***Turnover recognition***

Revenue is recognised on an accruals basis following the provision of the related goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

#### ***Time Charter, bareboat charter and brokerage income***

Revenue is recognised on a straight lines basis over the period of the contract.

#### ***Voyage Charter income***

Voyage charter income and related profits from the Company's vessel chartering activities (including any demurrage) is recognised on completion of the voyage.

#### ***Interest and similar income***

Revenue is recognised as interest accrues using the effective interest method.

#### ***Provision for liabilities***

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted.

#### ***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.

#### ***Joint ventures and arrangements***

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

The Company'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.

Joint arrangements that are not entities ('JANE') is a joint arrangement that is not an entity but is jointly controlled by the Company and one or more other ventures under a contractual agreement.

The Company accounts for its own share of assets, liabilities and cash flows according to the terms of the agreement governing the arrangement.



## Notes to the financial statements at 31 March 2015

### 2. Turnover

Turnover, which arises on continuing activities, represents the amounts receivable for services during the year, exclusive of VAT and other sales taxes or duty.

An analysis of turnover by geographical market is given below:

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
United Kingdom	44,997,293	46,624,134
Europe	96,626,550	135,517,838
Rest of the world	96,288,538	58,076,388
	<u>237,912,381</u>	<u>240,218,360</u>
Operating lease income from charter hire	<u>110,522,119</u>	<u>103,189,885</u>

Turnover of \$29m (2014:\$32m) is derived from fellow group undertakings and is based on arm's length prices.

### 3. Operating loss

This is stated after charging:

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Auditors' remuneration – audit of the financial statements	73,495	75,369
Other fees to auditors – taxation services	–	44,079
– other taxation services	–	75,104
	<u>73,495</u>	<u>119,552</u>
Depreciation of owned assets	34,338,361	31,845,269
Depreciation of leased assets	<u>5,531,441</u>	<u>4,274,620</u>
	<u>39,869,802</u>	<u>36,119,889</u>
Operating lease rentals – vessel hire	<u>101,556,984</u>	<u>112,823,425</u>
Foreign exchange loss	<u>3,387,953</u>	<u>720,904</u>

## Notes to the financial statements at 31 March 2015

### 4. Exceptional item

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Impairment of Fixed Assets	55,000,000	–
Profit on disposal of fixed assets	–	3,609,355
	<u>55,000,000</u>	<u>3,609,355</u>

An impairment charge of \$55 million (2014:\$Nil) was recognised against the carrying value of the assets. Refer to Note 10 for further details.

A profit of \$3.7 million was recognised on the sale of a vessel in 2014.

### 5. Directors' remuneration

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Remuneration	<u>410,484</u>	<u>769,906</u>

No pension contributions were paid by the Company to Directors during the year (year ended 31 March 2014 – US \$nil).

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

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Remuneration	<u>264,787</u>	<u>407,385</u>

### 6. Staff costs

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Wages and salaries	2,630,944	2,616,640
Social security costs	102,647	154,246
Other pension costs	93,414	81,694
	<u>2,827,005</u>	<u>2,852,580</u>

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

	<i>No.</i>	<i>No.</i>
Administration	<u>22</u>	<u>20</u>

## Notes to the financial statements at 31 March 2015

### 7. Interest receivable and similar income

	<i>Year Ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Bank interest receivable	182,648	165,240

### 8. Interest payable and similar charges

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
Bank loan and swap interest payable	4,020,020	4,162,185
Finance lease interest payable	3,448,816	3,370,055
	<u>7,468,836</u>	<u>7,532,240</u>

### 9. Tax

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

The tax charge is made up as follows:

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
<b>Current tax:</b>		
UK corporation tax on the loss for the year	437,656	429,926
Group relief (recoverable)/payable	(365,795)	(143,324)
Adjustment in respect of prior year	–	40,219
Total current tax (credit)/charge (note 9(b))	<u>71,861</u>	<u>326,821</u>

## Notes to the financial statements at 31 March 2015

### 9. Tax(continued)

#### (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 21% (year ended 31 March 2014 – 23%). The differences are explained below:

	<i>Year ended 31 March 2015 US\$</i>	<i>Year ended 31 March 2014 US\$</i>
(Loss)/Profit on ordinary activities before tax	<u>(69,413,821)</u>	<u>3,979,653</u>
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (year ended 31 March 2014 – 23%)	(14,576,902)	915,320
<i>Effects of:</i>		
Non-taxable (income)/non-deductible expenses	14,648,763	(628,718)
Adjustments in respect of previous years	–	40,219
Current tax (credit)/charge for the year (note 9(a))	<u>71,861</u>	<u>326,821</u>

Non-taxable (income)/non-deductible expenses principally relates to activities falling within the UK Tonnage Tax regime.

#### (c) Deferred tax

The Company is in the UK Tonnage Tax regime. Accordingly, the Company's tax charge is based upon the tonnage of the vessels operated by the Company and not the amount of profits arising from the operation of vessels. Income and expenses falling outside of the Tonnage Tax regime are subject to corporation tax at the statutory rate for the year.

### 10. Tangible fixed assets

	<i>Vessels under construction US\$</i>	<i>Vessels US\$</i>	<i>Dry-Docking US\$</i>	<i>Furniture and equipment US\$</i>	<i>Total US\$</i>
<b>Cost:</b>					
At 1 April 2014	18,893,102	717,237,956	9,764,045	445,736	746,340,839
Additions	33,236,985	37,191,047	5,792,011	147,041	76,367,084
Disposals/transfers	<u>(35,479,605)</u>	–	–	–	<u>(35,479,605)</u>
At 31 March 2015	<u>16,650,482</u>	<u>754,429,003</u>	<u>15,556,056</u>	<u>592,777</u>	<u>787,228,318</u>
<b>Depreciation and Impairment</b>					
At 1 April 2014	–	103,240,643	7,520,681	393,720	111,155,044
Charge for the year	–	37,375,347	2,440,318	54,137	39,869,802
Impairment	–	<u>55,000,000</u>	–	–	<u>55,000,000</u>
At 31 March 2015	<u>–</u>	<u>195,615,990</u>	<u>9,960,999</u>	<u>447,857</u>	<u>206,024,846</u>
<b>Net book value:</b>					
At 31 March 2015	<u>16,650,482</u>	<u>558,813,013</u>	<u>5,595,057</u>	<u>144,920</u>	<u>581,203,472</u>
At 1 April 2014	<u>18,893,102</u>	<u>613,997,313</u>	<u>2,243,364</u>	<u>52,016</u>	<u>635,185,795</u>

## Notes to the financial statements at 31 March 2015

### 10. Tangible fixed assets (continued)

No depreciation is provided for fixed assets under construction.

Included within the net book value of \$581,203,472 is US\$98,482,889 (year ended 31 March 2014 – US \$110,768,421) relating to assets held under finance lease. The depreciation charged to the financial statements in the year in respect of such assets amounted to US\$5,531,441 (year ended 31 March 2014 – US \$4,274,620). Finance costs capitalised in the year amounted to US\$652,050 (year ended 31 March 2014 – US\$2,133,320).

An impairment charge of \$55 million (2014: \$Nil) was recognised against the carrying value of the vessels.

Due to the ongoing volatility and decline in the market rate for freight we performed a discounted future cash flows analysis on all of our vessels which are owned or held under finance lease, to determine if these vessels were impaired.

The principal assumptions used in our discounted future cash flows analysis consisted of forecast future operating results, including time charter equivalent rates based on the contracted and/or 5yr and 10yr Baltic Dry Index historical freight rates, the estimated residual values and a weighted average cost of capital of 7%. Based on these discounted cash flows analysis, we determined that the net carrying value of 7 vessels exceeded their estimated discounted future cash flows. As a result we recognised \$55 million of vessel impairment charges during 2015.

The profit on disposal of fixed assets in 2014 related to the sale of Cape Dover.

### 11. Stocks

	31 March 2015 US\$	31 March 2014 US\$
Stocks	<u>7,273,970</u>	<u>12,279,958</u>

Stocks consist of bunker fuel oil and diesel fuel oil.

### 12. Debtors

	31 March 2015 US\$	31 March 2014 US\$
Trade debtors	5,959,662	7,800,857
Prepayments and accrued income	34,612,172	35,156,213
Amounts owed by group undertakings	27,796	170,201
	<u>40,599,630</u>	<u>43,127,271</u>

Amounts owed from group undertakings are unsecured, with no interest and no fixed repayment date.

## Notes to the financial statements at 31 March 2015

### 13. Creditors: amounts falling due within one year

	31 March 2015 US\$	31 March 2014 US\$
Bank loans (note 16)	30,484,818	73,729,518
Trade creditors	4,233,638	7,165,112
Amounts owed to group undertakings	109,070	54,194
Accruals and deferred income	29,177,510	23,929,593
Corporation tax payable	369,889	213,652
Other creditors	20,705	6,422
Obligations under finance leases and hire purchase contracts (note 15)	5,050,758	4,908,053
	<u>69,446,388</u>	<u>110,006,544</u>

Amounts owed to group undertakings are unsecured, interest free and have no fixed repayment terms.

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

	31 March 2015 US\$	31 March 2014 US\$
Bank loans (note 16)	312,575,394	284,116,307
Obligations under finance leases and hire purchase contracts (note 15)	101,892,685	106,943,443
	<u>414,468,079</u>	<u>391,059,750</u>

### 15. Obligations under finance leases and hire purchase contracts

Amounts due under finance leases:

	31 March 2015 US\$	31 March 2014 US\$
Amounts payable:		
Within one year	8,363,873	8,358,080
In two to five years	33,239,833	33,300,644
In more than five years	85,930,828	94,231,368
	<u>127,534,534</u>	<u>135,890,092</u>
Less: finance charges allocated to future years	<u>(20,591,091)</u>	<u>(24,038,596)</u>
	<u>106,943,443</u>	<u>111,851,496</u>

Analysis of present value of finance lease liabilities:

	31 March 2015 US\$	31 March 2014 US\$
In one year or less or on demand	5,050,758	4,908,053
In more than one year but not more than five years	21,633,824	21,037,366
In more than five years	80,258,861	85,906,077
	<u>106,943,443</u>	<u>111,851,496</u>

## Notes to the financial statements at 31 March 2015

### 16. Bank loans

	31 March 2015 US\$	31 March 2014 US\$
Amounts repayable:		
In one year or less or on demand	30,484,818	73,729,518
In more than one year but not more than two years	37,012,383	25,029,518
In more than two years but not more than five years	144,012,451	76,562,519
	211,509,652	175,321,555
In more than five years	131,550,560	182,524,270
	<u>343,060,212</u>	<u>357,845,825</u>

The Company has 12 loans secured against 12 individual vessels as follows:

- The first loan of \$11,581,164 is repayable by 2016 in 4 equal instalments \$631,700 and 1 final instalment of \$9,054,364. The rate of interest payable on the loan is 0.20% above LIBOR. The loan is secured by a guarantee provided by the ultimate parent Company.
- The second loan of \$34,595,000 is repayable by 2021 in 24 equal instalments \$935,000 and 1 final instalment of \$12,155,000. The rate of interest payable on the loan is 0.95% above LIBOR. The loan is secured by a guarantee provided by the ultimate parent Company.
- The third loan of \$42,290,000 is repayable by 2019 in 18 equal instalments \$1,100,000 and 1 final instalment of \$22,490,000. The rate of interest payable on the loan is 0.25% above LIBOR. The loan is secured by a fixed charge over the vessel.
- The fourth loan of \$20,793,829 (JPY2, 493,700,000) is repayable by 2020 in 24 equal instalments \$462,122 (JPY55, 420,000) and 1 final instalment of \$9,702,898 (JPY1, 163,620,000). The rate of interest payable on the loan is 1.15% above LIBOR. The loan is secured by a guarantee provided by the ultimate group Company.
- The fifth loan of \$35,695,047 is repayable by 2021 in 25 equal instalments \$778,544 and 1 final instalment of \$16,231,455. 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 sixth loan of \$24,150,000 is repayable by 2021 in 25 equal instalments \$525,000 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.
- The seventh loan of \$25,200,000 is repayable by 2022 in 27 equal instalments \$525,000 and 1 final instalment of \$11,025,000. The rate of interest payable on the loan is 1.00% above LIBOR. The loan is secured by a fixed charge over the vessel.
- The eighth loan of \$26,250,000 is repayable by 2019 in 17 equal instalments \$525,000 and 1 final instalment of \$17,325,000. The rate of interest payable on the loan is 0.76% above LIBOR. The loan is secured by a fixed charge over the vessel.
- The ninth loan of \$40,275,172 (JPY4, 830,000,000) is repayable by 2019 in 17 equal instalments \$808,839 (JPY97, 000,000) and 1 final instalment of \$26,524,911 (JPY3, 181,000,000). The rate of interest payable on the loan is 0.62% above LIBOR. The loan is secured by a fixed charge over the vessel.
- The tenth loan of \$22,260,000 is repayable by 2023 in 32 equal instalments \$420,000 and 1 final instalment of \$8,820,000. The rate of interest payable on the loan is 0.895% above LIBOR. The loan is secured by a fixed charge over the vessel.
- The eleventh loan of \$33,750,000 is repayable by 2020 in 24 equal instalments \$450,000 and 1 final instalment of \$23,850,000. The rate of interest payable on the loan is 1.15% above LIBOR. The loan is secured by a guarantee provided by the ultimate group Company.
- The twelfth new loan of \$26,220,000 is repayable by 2024 in 36 equal instalments \$460,000 and 1 final instalment of \$9,660,000. The rate of interest payable on the loan is 0.925% above LIBOR. The loan is secured by a fixed charge over the vessel.

## Notes to the financial statements at 31 March 2015

### 17. Issued share capital

		31 March 2015		31 March 2014
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>US\$</i>	<i>No.</i>	<i>US\$</i>
Ordinary shares of £1 each	19,989,662	<u>33,979,116</u>	19,989,662	<u>33,979,116</u>

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.

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

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holder's funds</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
At 1 April 2013	33,979,116	250,067,070	284,046,186
Profit for the year	–	3,652,832	3,652,832
At 1 April 2014	33,979,116	253,719,902	287,699,018
Profit/(Loss) for the year	–	(69,485,682)	(69,485,682)
At 31 March 2015	<u>33,979,116</u>	<u>184,234,220</u>	<u>218,213,336</u>

### 19. Derivatives

The Company uses interest rate swap contracts to reduce interest rate exposures. In addition, bunker swap and forward freight agreements are also used by the Company to mitigate its exposure to market price fluctuations. The fair values of the derivatives held at the balance sheet date (which was not recognised in the financial statements), determined by reference to their market values, are as follows:

	31 March 2015	31 March 2014
	<i>US\$</i>	<i>US\$</i>
Interest rate swaps	(686,955)	(835,810)
Forward freight agreements	263,783	(2,295,079)
Bunker swap agreements	(417,065)	(61,333)
Exchange Reservations	<u>(18,289)</u>	<u>–</u>

### 20. Capital commitments

Amounts contracted for but not provided in the financial statements for the construction of new vessels amounted to US\$28m (JPY 3.380b) (year ended 31 March 2014 – US\$68m (JPY 4.260b) )

### 21. 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\$93,414 (year ended 31 March 2014 – US\$81,694). The amount of outstanding contributions at the year end was US \$nil (year ended 31 March 2014 – US \$nil).



## Notes to the financial statements at 31 March 2015

### 22. Other financial commitments

At 31 March 2015 the Company had annual commitments under non-cancellable operating leases as set out below:

	31 March 2015	31 March 2014
Vessel hire US\$	Vessel hire US\$	
Operating Leases which expire:		
Within one year	3,531,612	31,642,989
In two to five years	9,175,187	18,573,938
Over five years	30,018,897	30,871,424
	<u>42,725,696</u>	<u>81,088,351</u>

### 23. 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 the following transactions were accounted for in relation to the Company's 50% interest in the joint arrangement that is not an entity, "E&K Amanda Partners: Revenue of \$2,146,786 (year ended 31 March 2014 - \$3,169,090) has been included in turnover (note 2) operating costs of \$979,622 (year ended 31 March 2014 - \$821,935) and administration costs of \$15,519 (year ended 31 March 2014 - \$18,147). The Company has also included 50% of the operations assets and liabilities at 31 March 2015, cash of \$1,408,885 (2014 \$2,908,744) and current liabilities of \$9,159 (2014 \$464,788).

A management fee of \$30,000 has been charged to E&K Amanda Partners by the Company in the year (year ended 31 March 2014 - \$30,000)

### 24. Ultimate parent undertaking and controlling party

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 smallest and 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.