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FLAGSHIPS LIMITED
REPORT AND FINANCIAL STATEMENTS

January 31, 2006



Flagships Limited

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Flagships Limited

Director
Alan Bekhor

Secretary
Harish Chikhlia

Registered Office
25 Dorset Square, London NW1 6QG

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

Report of the Director

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

Review of Activities

The company did not trade during the year.

The company has a new vessel under construction which is expected to be delivered at the end of 2006.

Directors

Mr A Bekhor acted as a director of the company throughout the year.

Director's Interest

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

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

Auditors

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

By Order of the Board on 3 July 2006


H. CHIKHLIA

Secretary
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Flagships Limited

Statement of Director's Responsibilities

Company law requires the director to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the director is required to:

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

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

**Independent Auditors' Report to the Shareholder of
Flagships Limited**

We have audited the financial statements of Flagships Limited for the year ended 31 January 2006 set out on pages 4 and 6. These financial statements have been prepared under the accounting policies set out on therein.

This report is made solely to the company's members as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the director and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Director's Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2006 and have been properly prepared in accordance with the Companies Act 1985.

St. Paul's House
London, EC4M 7BP

31 August 2006


MOORE STEPHENS LLP

Registered Auditor
Chartered Accountants

Flagships Limited

**Balance Sheet
As at 31 January 2006**

(Expressed in U.S.\$)

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Fixed Assets			
Vessel in course of construction	6	2,054,000	2,054,000
Creditors, amounts falling due within one year	4	-2,053,998	-2,053,998
		<u>2</u>	<u>2</u>
Capital and Reserves			
Called up share capital	5	<u>2</u>	<u>2</u>

Note: The Company did not trade during the period and made neither profit nor loss.

The financial statements were approved by the Board on 3 July 2006

And signed on its behalf by

A BEKHOR

Director

Flagships Limited

Financial Statements for the year ended 31 January 2006

Notes

1. Background

The company was incorporated on 25 November 2003. It has not yet commenced trading. A first instalment has been paid on a new vessel in course of construction. The vessel is expected to be delivered December 2006.

2. Principal Accounting Policies

(a) Basis of accounting

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

(b) Assets under construction

Assets under construction are carried at cost, less any identified impairment losses. All pre-delivery costs incurred during the construction of the ships including supervision and technical costs, have been capitalised.

(c) Foreign currencies

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

3. Director and Employees

The director received no remuneration during the period. The company has no employees.

4. Creditors, amounts falling due within one year

	2006	2005
	US\$	US\$
Amount due to parent company	2,053,998	2,053,998

The parent company, a company incorporated in the United Kingdom and owned by Mr A Bekhor has provided a short term loan to the company. The loan is unsecured, interest free and repayable on demand.

Flagships Limited

Financial Statements for the year ended 31 January 2006

Notes

5. Share Capital

	2006 US\$	2005 US\$
Authorised 1,000 ordinary shares of £1 each	<u>1,698</u>	<u>1,698</u>
Issue and fully paid 1 ordinary share of £1 each	<u>2</u>	<u>2</u>

6. Capital Commitment

The company has contracted to purchase a new handy max dry bulk carrier costing U.S.\$20.5 million, of which the company has paid the first installment of U.S.\$2,054,000. The vessel is due to be delivered in December 2006.

7. Ultimate Controlling Shareholder

The ultimate controlling shareholder is Mr Alan Bekhor.