

FLAGSHIPS LIMITED
REPORT AND FINANCIAL STATEMENTS
31 January 2007

WEDNESDAY



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Flagships Limited

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Flagships Limited

Directors

Alan Bekhor
Sunil Malhotra

Secretary

Harish Chikhliia

Registered Office

25 Dorset Square, London NW1 6QG

Auditors

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

Report of the Director

The director presents his report and the audited financial statements of the company for the year ended 31 January 2007. On 12 December 2006 the company took delivery of a new vessel MV Aquitania and started trading from that date. As the company did not trade during the previous year there are no comparative figures for the profit and loss account.

Review of Activities and Business Review

The principal activity of the company during the period following delivery of its vessel, was that of vessel operators. The company also entered into forward freight agreements to reduce exposure to freight movements.

From the time of the delivery of the MV Aquitania, the company has been able to benefit from the strong freight market and results for the current financial year should be strong. The Baltic supramax index continues to rise and the prospects for the foreseeable future seem positive.

Results and Dividend

The company made a profit on ordinary activities before taxation of U.S. \$1,047,117 for the year (2006 U.S. \$ nil). The director does not recommend the payment of a dividend.

Directors

Mr A Bekhor has served as a director throughout the year. Mr S Malhotra was appointed a director on 24 April 2007.

Financial Risk Management

The director has identified the need to manage the company's material financial risks, including foreign exchange, liquidity and credit risks. These risks are monitored by the director on a continual basis.

The company seeks to limit counter-party risk by conducting most of its banking activities with a limited number of major international banks, whose status is kept under review.

Foreign exchange risk

The company's activities are principally conducted in U.S. dollars. Approximately 90% of revenues and 90% of costs are in U.S. dollars, with the remainder of costs denominated in pound sterling, India rupees and Euros. Overall exposure is kept under continuous review and the company will participate in currency hedging where considered appropriate.

Liquidity Risk

The company finances its operations principally through retained profits and loans from related parties.

Flagships Limited

Report of the Director (Continued)

Credit Risk

No material exposure is considered to exist in respect of trade and other receivables

Directors' Declaration

Each of the persons who are directors at the time when this report is approved has confirmed that

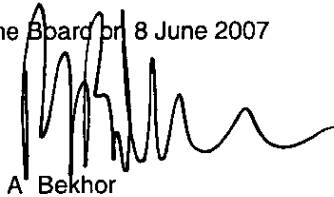
a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and

b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Auditors

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 8 June 2007

A handwritten signature in black ink, appearing to be 'A. Bekhor', written over the text 'By Order of the Board on 8 June 2007'.

A Bekhor

Director

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 2007 set out on pages 5 to 11. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the director and auditors

The director's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Director's 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 Director's 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 director's 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.

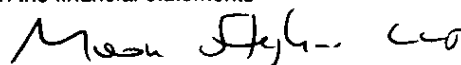
Opinion

In our opinion:

- a) 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 2007 and of its profit for the year then ended;
- b) the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- c) the information given in the directors' report is consistent with the financial statements.

St Paul's House
Warwick Lane
London EC4M 7BP

8 June 2007


MOORE STEPHENS LLP
Registered Auditors
Chartered Accountants

Flagships Limited

Profit and Loss Account **For the year ended 31 January 2007**

(Expressed in U S \$)

	<u>Note</u>	<u>2007</u>
Turnover	2(b)	1,765,722
Cost of sales		(663,636)
Gross Profit		<u>1,102,086</u>
Administration expenses		(61,325)
Operating Profit	3	<u>1,040,761</u>
Interest receivable	5	6,356
Profit on Ordinary Activities before Taxation		<u>1,047,117</u>
Taxation on profit on ordinary activities	6	-
Retained Profit for the Financial Year		<u><u>1,047,117</u></u>

Summary of Profit and Loss Account

At 1 February 2006	-
Retained profit for the financial year	1,047,117
At 31 January 2007	<u><u>1,047,117</u></u>

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

Flagships Limited

Balance Sheet - 31 January 2007

(Expressed in U S \$)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Fixed Assets			
Tangible assets	7	20,823,001	2,054,000
Current Assets			
Inventories		402,003	-
Debtors	8	116,763	-
Cash at bank and in hand		1,993,397	-
		<u>2,512,163</u>	<u>-</u>
Creditors, amounts falling due within one year	9	(22,288,045)	(2,053,998)
Net Current (Liabilities)		<u>(19,775,882)</u>	<u>(2,053,998)</u>
Total Assets Less Current Liabilities		<u>1,047,119</u>	<u>2</u>
Capital and Reserves			
Called up share capital	10	2	2
Profit and loss account		1,047,117	-
Shareholder's Funds	11	<u>1,047,119</u>	<u>2</u>

The financial statements were approved by the Board on 8 June 2007
and signed on its behalf by

A BEKHOR

Director

Flagships Limited

Financial Statements for the year ended 31 January 2007

Notes

1 Background and Trading Activities

Flagships Limited was incorporated in the United Kingdom on 25 November 2003 and commenced trading on 12 December 2006 when the company took delivery of the m v "Aquitania"

The vessel is employed on time and voyage charters

2 Principal Accounting Policies

(a) Basis of accounting

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

(b) Turnover

Turnover represents hire and freight receivable

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

(c) Tangible fixed assets and depreciation

The vessel is stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of the vessel, after allowing for an estimated residual value, over its estimated useful life of 25 years from date of building

(d) Drydocking costs

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

(e) Inventories

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

(f) Foreign currencies

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

Flagships Limited

Financial Statements for the year ended 31 January 2007 **Notes (Continued)**

2 Principal Accounting Policies (continued)

(g) Derivatives

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

3 Operating Profit

The operating profit is stated after charging

	2007 U S \$
Depreciation and amortisation	109,036
Auditors' remuneration	7,000
- Audit services	-
- Other	-
Realised losses on forward freight agreements (note 12)	32,315
	<u> </u>

4 Director and Employees

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

	2007 U S \$
Salaries and wages	65,174
	<u> </u>

The company employed 21 employees by the year end

5 Interest Receivable

	2007 U S \$
Bank interest receivable	6,356
	<u> </u>

6 Taxation on Profit on Ordinary Activities

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

	2007 U S \$
Corporation tax charge for the year	-
	<u> </u>

Flagships Limited

Financial Statements for the year ended 31 January 2007

Notes (Continued)

7 Tangible Fixed Assets

	Assets under Construction	Vessel	Drydocking Costs	Total
	U S \$	U S \$	U S \$	U S \$
Cost				
At 1 February 2006	2,054,000	-	-	2,054,000
Additions	-	18,628,037	250,000	18,878,037
Transfer	(2,054,000)	2,054,000	-	-
At 31 January 2007	-	20,682,037	250,000	20,932,037
Depreciation				
At 1 February 2006	-	-	-	-
Charge for the year	-	93,410	15,626	109,036
At 31 January 2007	-	93,410	15,626	109,036
Net book value				
At 31 January 2007	-	20,588,627	234,374	20,823,001
At 31 January 2006	2,054,000	-	-	2,054,000

8 Debtors

	2007	2006
	U S \$	U S \$
Trade debtors	11,130	-
Amount due from related undertaking	16,500	-
Other debtors	11,561	-
Prepayments and accrued income	77,572	-
	116,763	-

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

9 Creditors: amounts falling due within one year

	2007	2006
	U S \$	U S \$
Trade creditors	199,419	-
Amount due to parent company	2,086,313	2,053,998
Amount due to related undertaking	19,647,988	-
Accruals and deferred income	354,325	-
	22,288,045	2,053,998

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

Flagships Limited

Financial Statements for the year ended 31 January 2007

Notes (Continued)

10 Share Capital

	2007 U S \$	2006 U S \$
Authorised		
1,000 Ordinary shares of £1 each	1,698	1,698
Issued 1 Ordinary share of £1 issued, fully paid	2	2

11 Movement in Shareholder's Funds

	2007 U S \$	2006 U S \$
At 1 February 2006	2	2
Retained profit for the year	1,047,117	-
At 31 January 2007	1,047,119	2

12 Other commitments

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

Realised losses on completed forward freight agreements during the year ended 31 January 2007 relating to the company amounted to U S \$32,315 (2006 U S \$nil)

Unrealised losses on outstanding forward freight agreements at 31 January 2007 amounted to U S \$0 1 million (2006 U S \$nil) In accordance with the company's accounting policy relating to derivatives, this amount has not been recognised in the financial statements

The company is party to a cross guarantee arrangement with one of its bankers which includes facilities made available to its parent company, fellow subsidiaries and to related undertakings owned by Mr A Bekhor At 31 January 2007 none of the companies within this arrangement were indebted to the bank

Flagships Limited

Financial Statements for the year ended 31 January 2007

Notes (Continued)

13 Related Party Transactions

In addition to the transactions reported in notes 8, 9 and 12 above, Ocean Bulk Carriers Limited, a company registered in the United Kingdom and owned by Mr A Bekhor, carries out husbandry and administration activities on behalf of the company. In the year ended 31 January 2007 the amount charged to the company relating to these activities amounted to U S \$33,016 (2006 U S \$nil)

14 Ultimate Holding Company and Controlling Shareholder

The ultimate holding company of Flagships Limited is Verney Services Limited, which is registered in England. The ultimate controlling shareholder is Mr A Bekhor.