Company Number 04975519

FLAGSHIPS LIMITED

REPORT AND FINANCIAL STATEMENTS

31st JANUARY 2008

FLAGSHIPS LIMITED

Contents

FLAGSHIPS LIMITED

Directors

A R Bekhor
S Malhotra

Company Secretary and Registered Office

H Chikhlia
11 Manchester Square, London W1U 3PW

Auditors

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

Report of the Directors

The directors have pleasure in submitting the annual report and audited financial statements for the year ended 31st January 2008 On 12 January 2006 the company took delivery of a new vessel MV Aquitania and started trading from that date

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 entered into forward freight agreements to reduce exposure to freight movements

From the time of 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 results for the year mark a considerable improvement over last year as the company benefited from the rising market with the Baltic supramax index rising from an average rate for 2007 of $23,906 per day to $49,312 per day The Baltic 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 $6,008,866 for the year (2007 U S $1,047,117) The directors do not recommend the payment of a dividend

Directors

Mr Alan Bekhor served as a director throughout the year Mr Sunil Malhotra was appointed as a director on 24 April 2007

Financial Risk Management

The directors have identified the need to manage the company's material financial risks, including foreign exchange, liquidity and credit risks These risks are monitored by the directors 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 sterling, Indian rupees and Euros Overall exposure is kept under constant review and the company will participate in currency hedging where considered appropriate

FLAGSHIPS LIMITED

Report of the Directors (Continued)

Financial Risk Management (Continued)

Liquidity Risk

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

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

The report of the directors was approved by the Board on 19 September 2008
and signed on its behalf by

A Bekhor

Director

FLAGSHIPS LIMITED

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial period, and of the profit or loss and cash flows of the company for the period

In preparing those financial statements, the directors are 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, and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent Auditors' Report to the Shareholders of Flagships Limited

We have audited the financial statements of Flagships Limited for the year ended 31st January 2008 which are set out pages 6 to 13 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 directors and auditors

The directors' 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 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

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 31st January 2008 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

Moore Stephens LLP

St Paul's House
Warwick Lane
London, EC4M 7BP

Moore Stephens LLP
Registered Auditors
Chartered Accountants

3 October 2008

FLAGSHIPS LIMITED

Profit and Loss Account
For the year ended 31st January 2008

(Expressed in U S $)

	Note	2008 U S $	2007 U S $
Turnover	2(b)	11,719,024	1,765,722
Cost of Sales		(5,401,789)	(633,636)
Gross Profit		6,317,235	1,102,086
Administration expenses	3	(313,145)	(61,325)
Operating Profit		6,004,090	1,040,761
Interest receivable	5	4,776	6,356
Profit on Ordinary Activities Before Taxation	3	6,008,866	1,047,117
Tax on profit on ordinary activities	6	(17,500)	-
Retained Profit for the Financial Year	11	5,991,366	1,047,117

Summary of Profit and Loss Account

	2008	2007
At 1 February 2007	1,047,117	-
Retained profit for the financial year	5,991,366	1,047,117
At 31 January 2008	7,038,483	1,047,117

The company had no recognised gains or losses other than those included in the profit and loss account

FLAGSHIPS LIMITED

Balance Sheet - 31st January 2008

(Expressed in U S $)

		2008 U S $	2007 U S $
Fixed Assets			
Tangible assets	7	20,032,722	20,823,001
Current Assets			
Inventories		122,263	402,003
Debtors	8	570,029	116,763
Cash at bank and in hand		-	1,993,397
		692,292	2,512,163
Creditors, amounts falling due within one year	9	(13,686,529)	(22,288,045)
Net Current (Liabilities)		(12,994,237)	(19,775,882)
Total Assets Less Current Liabilities		7,038,485	1,047,119
Capital and Reserves			
Called up share capital	10	2	2
Profit and loss account	11	7,038,483	1,047,117
Shareholders' Funds		7,038,485	1,047,119

The financial statements were approved by the Board on 19 September 2008
and signed on its behalf by

A Bekhor Director

FLAGSHIPS LIMITED

Financial Statements for the year ended 31st January 2008

Notes (Expressed in U S $)

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 MV Aquitania

The vessel was 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

(b) Turnover

Revenues are recorded when services are rendered, the Company has a signed charter agreement or other evidence of an arrangement, the price is fixed or determinable, and collection is reasonably assured The Company primarily generates revenues from the transportation of cargo and the time charter of vessels Estimated losses on voyages are provided for in full at the time such losses become evident

Deferred voyage revenues relate to amounts received prior to being earned These amounts are recognised as revenues over the related voyage or charter period and include both amounts received from charterers and compensation for acquiring a vessel with an existing charter at below market rate

(c) Tangible fixed assets and depreciation

Vessels are stated at cost less accumulated depreciation and provision for impairment

Material expenditures that extend the useful life of the vessel incurred in improvements to the vessel are also capitalised

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

Depreciation is computed using the straight line method over the estimated useful life of the vessels, after considering the estimated residual values, commencing when the vessel is ready for its intended use Management estimates the useful life of the Company's vessels to be 25 years from the vessel's original construction Scrap value is estimated by the Company by taking the scrap value of steel times the weight of the ship noted in lightweight tons

The Company's vessels are subject to regularly scheduled drydocking and special surveys which are carried out approximately every 30 or 60 months for major repairs Costs of drydocking and special surveys, which do not represent repairs or maintenance, are capitalised and amortised over 30 months or to the next drydocking or special survey date Repairs and maintenance costs are expensed as incurred

2. Principal Accounting Policies (Continued)

(c) Tangible fixed assets and depreciation (continued)

When vessels are acquired, the portion of the vessel's cost that relates to drydocking or special survey is treated as a separate component of the vessel's cost and is amortised in accordance with the Company's normal amortisation policies

(d) Trade debtors

The Company includes its trade debtors at cost less an allowance for doubtful accounts On a periodic basis, the Company evaluates its trade debtors and establishes an allowance for doubtful accounts, based on a history of past write-offs, collections and current credit conditions At 31 January 2007 and 2008, no allowance was required by the Company

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with banks and other short-term liquid investments with an original maturity of three months or less when purchased

(f) Inventories

Inventories consist of lubricants and bunkers onboard vessels and are stated at the lower of cost and net realisable value on a first in first out basis

(g) Fair value of financial instruments

The Company accounts for the financial assets and liabilities approximate to their fair values at the date of the transaction Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value

(h) Taxation

The Company pays a flat rate tax in the United Kingdom based on the net tonnage of vessels operated Any income and profits that the Company earns in the United Kingdom outside the tonnage tax regime are taxed under normal United Kingdom corporation tax rules

(i) Reporting Currency

The company's functional currency is the United States dollar as substantially all revenues are received in United States dollars and a majority of the Company's expenditures are made in United States dollars

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date Revenues earned and expenses paid in foreign currencies are recorded at the rate of exchange at the transaction date Exchange gains and losses are included at the determination of net income

FLAGSHIPS LIMITED

Financial Statements for the year ended 31st January 2008

Notes (Expressed in U S $)

2 Principal Accounting Policies (Continued)

(j) Derivatives

The company uses derivative financial instruments to reduce exposure to freight, interest rate, bunker and foreign currency movements The company does not hold or issue derivative financial instruments for speculative purposes With the exception of certain foreign currency future options which qualify for hedge accounting, gains and losses on derivates are recognised in the profit and loss account when they are realised

(i) Forward freight agreements

The Company enters into drybulk forward freight agreements ("FFAs") as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions the Company expects to carry out in the normal course of its shipping business

Gains and losses on forward freight agreements are recognised in the profit and loss account when they are realised

(ii) Bunker hedging

The Company requires a significant amount of fuel in order to carry out its activities and, as a result, is exposed to movements in vessel fuel prices Accordingly, the Company enters into forward purchase contracts to hedge its exposure to, and manage the volatility associated with, vessel fuel prices

(iii) Interest rate hedging

The Company is exposed to the impact of interest rate changes on its variable rate debt Accordingly, the Company enters into interest rate swap agreements to manage the exposure to interest rate variability

(iv) Foreign currency hedging

The Company is exposed to fluctuations in foreign exchange rates and in certain circumstances will enter into foreign currency future contracts The Company accounts for such contracts as economic hedges except for those that qualify for hedge accounting

3. Operating Profit

The operating profit is stated after charging

		2008 U S $	2007 U S $
Depreciation and amortisation		790,279	109,036
Auditors' remuneration	- Audit service	7,988	7,000
	- Other		-
Realised losses on forward freight agreements (note 12)		2,097,632	32,315
Foreign exchange losses		4,671	1,044

FLAGSHIPS LIMITED

Financial Statements for the year ended 31st January 2008

Notes (Continued) (Expressed in U S $)

4 Director and Employees

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

	2008 U S $	2007 U S $
Wages and salaries	377,615	65,174

The company employed 22 employees by the year end (2007 21)

5 Interest Receivable

	2008 U S $	2007 U S $
Bank interest receivable	4,776	6,356

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

	2008 U S $	2007 U S $
Corporation tax charge for the year	17,500	-

7 Tangible Fixed Assets

		Vessel U S $	Drydocking Costs U S $	Total U S $
Cost				
	At 1 February 2007	20,682,037	250,000	20,932,037
	Additions	-	-	-
	At 31 January 2008	20,682,037	250,000	20,932,037
Depreciation				
	At 1 February 2007	93,410	15,626	109,036
	Charge for the year	665,275	125,004	790,279
	At 31 January 2008	758,685	140,630	899,315
Net Book Value				
	At 31 January 2008	19,923,352	109,370	20,032,722
	At 31 January 2007	20,588,627	234,374	20,823,001

Notes (Continued) (Expressed in U S $)

8. Debtors

	2008 U S $	2007 U S $
Trade debtors	344,394	11,130
Amount due from related undertaking	21,601	16,500
Amounts due to fellow subsidiary companies	49,064	
Other debtors	18,151	11,561
Prepayments and accrued income	136,819	77,572
	570,029	116,763

9 Creditors: amounts falling due within one year

	2008 U S $	2007 U S $
Trade creditors	356,464	199,419
Amount due to parent company	10,260,366	2,086,313
Amount due to fellow subsidiary companies	2,253,144	19,647,988
Accruals and deferred income	799,055	354,325
Corporation Tax	17,500	-
	13,686,529	22,288,045

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

10 Share Capital

	2008 U S $	2007 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

	2008 U S $	2007 U S $
At 1 February 2007	1,047,119	2
Retained profit for the year	5,991,366	1,047,117
At 31 January 2008	7,038,485	1,047,119

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 2008 relating to the company amounted to U S $ 2,097,632 (2007 U S $ 32,315)

Unrealised losses on outstanding forward freight agreements at 31 January 2008 amounted to U S $ nil (2007 U S $ 0 1 million) 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 2008 there was a loan facility with DSB for U S $85,000,000, bearing interest at LIBOR plus 0 7% per annum A mortgage was taken out against the MV Aquitania as security on this loan

13. Related Party Transactions

In addition to the transactions reported in notes 8, 9 and 12 above, British Marine Plc, 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 2008 the amount charged to the company relating to these activities was U S $ 236,885

14 Ultimate Holding Company and Controlling Shareholder

The parent company of Flagships Limited is British Marine Plc, which is registered in England The ultimate controlling shareholder is Mr A Bekhor