

5356484

"K" Line LNG Shipping (UK) Limited

Report and Financial Statements

31 December 2007

WEDNESDAY



LOHdryXP

LD6

16/04/2008

139

COMPANIES HOUSE

"K" Line LNG Shipping (UK) Limited

Registered No 5356484

Directors

A Misaki
Captain T Igarashi
N Shiba

Secretary

R J R Dowding

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Mizuho Corporate Bank Limited
Bracken House
One Friday Street
London EC4M 9JA

The Bank of Tokyo-Mitsubishi UFJ, Ltd
12-15 Finsbury Circus
London EC2M 7BT

The Governor and Company of the Bank of Scotland
50 West Campbell Street
Glasgow
Scotland

Sumitomo Mitsui Banking Corporation Europe Limited
99 Queen Victoria Street
London EC4N 4TA

Registered Office

5th Floor
River Plate House
7-11 Finsbury Circus
London EC2M 7EA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the year, after taxation, amounted to US\$3,498,080 (2006 – profit of US\$623,124) The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activities of the company during the year 2007 were the ownership and ship management operations of LNG vessels

The company's key financial performance indicators during the year were as follows

	2007 \$000	2006 \$000	Change %
Turnover	16,338	10,269	59%
Profit after tax	3,498	623	461%
Shareholders' funds	8,788	5,290	66%
Cash at bank	12,732	74,092	-83%

Turnover increased by 59% during the year primarily due to ship management fees being accounted for a full calendar year compared to the start of activities in the previous financial year Furthermore, the increase in turnover is attributed to additional vessels being managed during the year

Cash balance decreased significantly as a result of a change of finance strategy

The authorised 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

Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years They consider that 2008 will show a further significant growth in sales from continuing operations because of new vessels being added to the current fleet

Directors

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

Captain T Igarashi

A Misaki

H Nagayama

N Shiba

(resigned 31 March 2008)

(appointed 1 April 2008)

Directors' report

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as

- **Competitive risks**

The existence of medium to long term contracts with some customers minimises the company's exposure to a certain extent

- **Legislative risks**

In the UK and Europe, the main legislative risks are EU competition law, employment law and tax law. These standards are subject to continuous revision, however, they are not expected to have a material impact on the ability of the company to generate a profit

- **Treasury operations and financial instruments**

The company operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the company's activities

- **Financial instrument risks**

The company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level

- **Use of derivatives**

The company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The company also uses interest rate swaps to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements

- **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

The company manages its cash flow in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business

- **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures

All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are reviewed on a regular basis and provision is made for doubtful debts where necessary. The company does not suffer from significant bad debt expense

Auditors

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

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the board



Secretary

15 APR 2008

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

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

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 21. 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 in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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, are properly prepared in accordance with the Companies Act 1985 and whether 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 became 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.



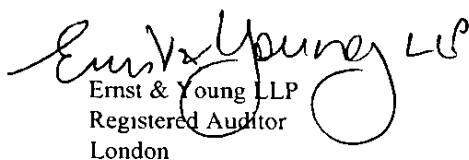
Independent auditors' report

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of the company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements


Ernst & Young LLP
Registered Auditor
London

16 APR 2008

Profit and loss account

for the year ended 31 December 2007

	Notes	2007 US\$	2006 US\$
Turnover	2	16,338,117	10,269,233
Cost of sales		(14,967,402)	(7,623,780)
Gross profit		1,370,715	2,645,453
Administrative expenses		6,609,825	(3,893,498)
Operating profit/(loss)	3	7,980,540	(1,248,045)
Interest receivable	6	5,652,347	1,304,847
Interest payable and similar charges	7	(3,237,778)	(786,313)
Foreign exchange (loss)/gain on retranslation of loans		(4,857,658)	1,036,711
		(2,443,089)	1,555,245
Profit on ordinary activities before taxation		5,537,451	307,200
Tax on profit on ordinary activities	8	(2,039,371)	315,924
Profit for the financial year		3,498,080	623,124

Statement of total recognised gains and losses

for the year ended 31 December 2007

There are no recognised gains or losses other than the profit of US\$3,498,080 (2006 – profit of US\$623,124) attributable to the shareholders for the year ended 31 December 2007

Balance sheet

at 31 December 2007

	Notes	2007 US\$	2006 US\$
Fixed assets			
Tangible fixed assets	9	160,629,370	—
Current assets			
Stock	10	2,310,014	—
Debtors	11	2,062,863	2,128,213
Cash at bank		12,732,032	74,092,534
		17,104,909	76,220,747
Creditors amounts falling due within one year	12	(25,314,197)	(11,870,677)
Net current (liabilities)/assets		(8,209,288)	64,350,070
Total assets less current liabilities		152,420,082	64,350,070
Creditors amounts falling due after more than one year	13	(143,631,163)	(59,060,406)
Provision for liabilities	8(c)	(1,175)	—
		8,787,744	5,289,664
Capital and reserves			
Called up share capital	16	6,300,233	6,300,233
Profit and loss account	17	2,487,511	(1,010,569)
Shareholders' funds	17	8,787,744	5,289,664

G. J. Misa Ce.
Director

15 APR 2008

Notes to the financial statements

at 31 December 2007

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards

The directors consider that the company's functional and reporting currency is the US\$ because its business contracts are in US\$

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Stocks

Stocks consist of bunker fuel oil and diesel fuel oil which are stated at cost determined by first-in-first-out method

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation and impairment losses. Depreciation is calculated on the straight line basis to write off the cost of the assets net of residual value over their expected useful life. Cost of vessels includes the cost of any major enhancement and improvement which increase the future benefits from the vessel beyond their previously assessed standard of performance. Expenditure for routine replacements and repairs is written off immediately in the profit and loss account

The depreciation rates used are as follows -

Vessel	30 years
Equipment	3 years

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the profit and loss account

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

Leases

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

Asset 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 loans. 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 represent 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 to produce a constant periodic rate of change on the remaining balance of the obligation for each accounting period

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Debtors

Debtors are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on possible losses which may arise from non-collection of certain amounts.

Turnover Recognition

(i) Charter hire income

The time charter equivalent of income from the Company's vessel chartering activities are recognised on a time proportion basis.

(ii) Management fees

The fees earned from the management of vessels, crew and technical matters are recognised when services are rendered.

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.

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.

Foreign currencies

Transactions in Sterling and other foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the US\$ 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 exchange rate between GBP and USD was 1.991 at 31 December 2007.

Derivative instruments

The company uses interest rate swap contracts to reduce interest rate exposures. The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Notes to the financial statements

at 31 December 2007

2. Turnover

Turnover, which arises on continuing activities, represents the amounts receivable for services provided during the year, exclusive of VAT

	2007 US\$	2006 US\$
United Kingdom	9,413,230	5,268,613
Rest of the World	6,924,887	5,000,620
	<u>16,338,117</u>	<u>10,269,233</u>

3. Operating profit/(loss)

This is stated after charging/(crediting)

	2007 US\$	2006 US\$
The remuneration of auditors is analysed as follows		
Audit of the financial statements	31,337	27,822
Other fees to auditors	59,244	—
Depreciation of owned assets	525	—
Depreciation of leased assets	223,381	—
Lease and hire purchase contracts	91,386	—
	<u>(12,906,379)</u>	<u>(98,513)</u>
Net gain on foreign currency translation		

4 Staff costs

	2007 US\$	2006 US\$
Wages and salaries	2,621,423	1,808,965
Social security costs	94,964	70,704
Other pension costs	99,874	55,338
	<u>2,816,261</u>	<u>1,935,007</u>

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

	2007 No	2006 No
Administrative staff	16	12

Notes to the financial statements

at 31 December 2007

5. Directors' emoluments

The remuneration paid to directors was

	2007 US\$	2006 US\$
Emoluments	586 292	243 515
Company contributions paid to personal money purchase pension schemes	-	-

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

	No	No
Pension contributions	-	-

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

	2007 US\$	2006 US\$
Emoluments	302,763	150,697
Company contributions paid to personal money purchase pension schemes	-	-

6. Interest receivable

	2007 US\$	2006 US\$
Bank interest receivable	5,652,347	1,303,574
Other interest	-	1,273
	5,652,347	1,304,847

7. Interest payable and similar charges

	2007 US\$	2006 US\$
Bank interest payable	1,052,384	786,313
Others	2,094,008	-
Finance lease	91,386	-
	3,237,778	786,313

Notes to the financial statements

at 31 December 2007

8. Taxation on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge/(credit) is made up as follows

	2007 US\$	2006 US\$
<i>Current tax</i>		
UK corporation tax	2,038,196	–
Group relief recoverable	–	(315,924)
Total current tax (note 8(b))	2,038,196	(315,924)
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 8(c))	1,175	–
Tax on profit on ordinary activities	2,039,371	(315,924)

(b) Factors affecting current tax charge/(credit)

The differences are reconciled below

	2007 US\$	2006 US\$
Profit on ordinary activities before tax	5,537,451	307,200
Profit on ordinary activities by standard rate of corporation tax in the UK of 30% (2006 – 30%)	1,661,235	92,160
Expenses not deductible for tax purposes	378,220	62,562
Other timing differences	(1,259)	(470,646)
Total current tax (note 8(a))	2,038,196	(315,924)

Notes to the financial statements

at 31 December 2007

8. Taxation on profit on ordinary activities (continued)

(c) Deferred tax

The deferred tax liability included in the balance sheet is as follows

	2007 US\$	2006 US\$
Accelerated capital allowances	1,175	—
Provision for deferred taxation	1,175	—
	<u>1,175</u>	<u>—</u>
		2007 US\$
At 31 December 2006		—
Profit and loss account movement arising during the year		1,175
At 31 December 2007		<u>1,175</u>

9. Tangible fixed assets

	Vessel US\$	Equipment US\$	Total US\$
Cost			
At 1 January 2007	—	—	—
Additions	160,834,391	18,884	160,853,276
At 31 December 2007	<u>160,834,391</u>	<u>18,884</u>	<u>160,853,276</u>
Depreciation			
At 1 January 2007	—	—	—
Charge for the year	223,381	525	223,906
At 31 December 2007	<u>223,381</u>	<u>525</u>	<u>223,906</u>
Net book value			
At 31 December 2007	<u>160,611,010</u>	<u>18,360</u>	<u>160,629,370</u>
At 1 January 2007	<u>—</u>	<u>—</u>	<u>—</u>

Vessel with net book value of US\$160,611,010 (2006 Nil) has been placed as security under finance lease arrangement

Notes to the financial statements

at 31 December 2007

10 Stocks

	2007	2006
	US\$	US\$
Stocks	2,310,014	—

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

11. Debtors

	2007	2006
	US\$	US\$
Amounts owed from group undertakings	370,023	830,889
Prepayments and accrued income	165,907	1,199,849
Other debtors	1,526,933	97,475
	<u>2,062,863</u>	<u>2,128,213</u>

12. Creditors: amounts falling due within one year

	2007	2006
	US\$	US\$
Trade creditors	1,365,007	525,983
Amounts owed to group undertakings	1,110,726	625,366
Corporation tax	1,654,765	—
Accruals and deferred income	8,666,465	1,168,995
Loans (note 14)	4,957,699	9,550,333
Obligations under leases and hire purchase contracts (note 15)	7,559,535	—
	<u>25,314,197</u>	<u>11,870,677</u>

13. Creditors: amounts falling due after more than one year

	2007	2006
	US\$	US\$
Loans (note 14)	—	59,060,406
Obligations under finance leases and hire purchase contracts (note 15)	143,631,163	—
	<u>143,631,163</u>	<u>59,060,406</u>

Notes to the financial statements

at 31 December 2007

14. Loans

	2007	2006
	US\$	US\$
Maturity of bank loans is analysed as follows		
In one year or less or on demand	4,957,699	9,550,333
In more than one year but not more than five years	–	17,040,688
In more than five years	–	42,019,718
	<u>4,957,699</u>	<u>68,610,739</u>

The first loan of \$59,060,405 (¥7,040,000,000) (2006 \$59,060,405 or ¥7,040,000,000) has been settled during the year

The second loan of \$4,207,699 (¥470,000,000) (2006 \$7,550,333 or ¥900,000,000) is repayable in January 2008 in one instalment. The rate of interest payable on the loan is 0.3% above LIBOR.

The third loan of \$750,000 (2006 \$2,000,000) is repayable in January 2008 in one instalment. The rate of interest payable on the loan is 0.3% above LIBOR.

15. Obligations under leases and hire purchase contracts

Amounts due under finance leases

	2007	2006
	US\$	US\$
Amounts payable		
Within one year	9,348,117	–
In two to five years	40,695,931	–
In more than five years	131,153,878	–
	<u>181,197,926</u>	<u>–</u>
Less: finance charges allocated to future periods	(30,007,228)	–
	<u>151,190,698</u>	<u>–</u>

Analysis of present value of finance lease liabilities

	2007	2006
	US\$	US\$
In one year or less or on demand	7,559,535	–
In more than one year but not more than five years	30,238,140	–
In more than five years	113,393,023	–
	<u>151,190,698</u>	<u>–</u>

The rate of interest payable on the finance lease is 0.275% above LIBOR.

Notes to the financial statements

at 31 December 2007

16. Share capital

	<i>Authorised</i>	
	<i>2007</i>	<i>2006</i>
	<i>US\$</i>	<i>US\$</i>
Ordinary shares of £1 each	44,918,872	44,918,872
	<u> </u>	<u> </u>
	<i>Allotted, called up and fully paid</i>	
	<i>2007</i>	<i>2006</i>
	<i>No</i>	<i>No</i>
	<i>US\$</i>	<i>US\$</i>
Ordinary shares of £1 each	3,536,143	3,536,143
	<u> </u>	<u> </u>

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

17. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share-holders' funds</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
At 31 December 2005	2,550,233	(1,633,693)	916,540
Profit for the year	-	623,124	623,124
Arising on issue of shares	3,750,000	-	3,750,000
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2006	6,300,233	(1,010,569)	5,289,664
Profit for the year	-	3,498,080	3,498,080
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2007	6,300,233	2,487,511	8,787,744
	<u> </u>	<u> </u>	<u> </u>

18. Defined contribution pension scheme

The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost and charge represent contributions payable by the company to the fund and amounted to \$99,874 (2006 \$55,338). The amount of outstanding contributions at the year end was \$nil (2006 - \$nil).

Notes to the financial statements

at 31 December 2007

19. Derivatives

The company uses interest rate swap contracts to reduce interest rate exposures. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	2007 US\$000	2006 US\$000
Interest rate swaps	(3,225)	(1,082)
Forward foreign currency contracts	—	13,913
	<u> </u>	<u> </u>

20. Related party transactions

The company has taken advantage of the exemption available in FRS 8 from disclosing transactions with related parties, 90% or more of whose voting rights are controlled within the Kawasaki Kisen Kaisha Limited group.

21. Ultimate parent undertakings

The immediate parent undertaking is "K" Line Holding (Europe) Limited. The financial statements of "K" Line Holding (Europe) Limited represent the smallest group in which the company is consolidated and may be obtained from the company's registered office.

The ultimate parent undertaking and controlling party is Kawasaki Kisen Kaisha Limited, which is incorporated in Japan.

The financial statements of Kawasaki Kisen Kaisha Limited, which represent the largest group in which the company is consolidated, are available from Kawasaki Kisen Kaisha Limited, Hibiya Central Buildings, 2-9 Nishi-Shimbashi 1 - chome, Minato-ku, Tokyo 105-8421, Japan.