

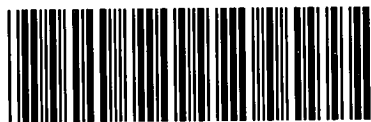
Registered no. 5356484

“K” Line LNG Shipping (UK) Limited

Report and Financial Statements

31 March 2017

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Registered No. 5356484

Company Information

Directors

Y Goto

S Sato

Secretary

B Y Ramlalsing

Independent Auditors

PricewaterhouseCoopers LLP

1 Embankment Place

London WC2N 6RH

Bankers

Mizuho Bank Limited

30 Old Bailey

London EC4M 7AU

The Bank of Tokyo-Mitsubishi UFJ, Limited.

Ropemaker Place

25 Ropemaker Street

London EC2Y 9AN

Sumitomo Mitsui Banking Corporation Europe Limited

99 Queen Victoria Street

London EC4V 4EH

Registered Office

6th Floor

200 Aldersgate Street

London EC1A 4HD

Registered No. 5356484

Strategic Report

The Directors present their Strategic Report and Financial Statements of “K” Line LNG Shipping (UK) Limited for the financial year ended 31 March 2017.

Results

The profit for the financial year amounted to US\$14,746,567 (2016 –US\$13,272,884).

Principal activities and review of the business

The principal activities of the Company during the year were the ownership of one LNG vessel and ship management operations of LNG vessels.

The Company’s key financial performance indicators during the year were as follows:

	<i>Year ended 31 March 2017 \$000</i>	<i>Year ended 31 March 2016 \$000</i>	<i>Change %</i>
Turnover	76,709	89,625	(14%)
Profit for the financial year	14,747	13,273	11%
Total Shareholder’s funds	90,221	72,143	25%
Cash at bank and in hand	19,203	11,279	70%

Turnover is generated from the time charter of the owned vessel Celestine River, vessel management fees and commission. The decrease in turnover is mainly linked to vessel management activities whilst the movement in profit for the financial year is attributed to no finance lease refinance cost incurred in the year in comparison to the last year.

Cash at bank and in hand increased mainly as a result of the ordinary course of business, offset by investments made in the Company’s joint venture with Chandris.

Principal risks and uncertainties

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

Financial risks

The principal risks and uncertainties faced by the Company include the residual value of the finance leased vessel at the time of disposal. The Company undertakes an annual assessment of impairment indicators and useful economic lives of all ship assets.

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, tax laws, UK Bribery Act, low sulphur fuel regulations and shipping legislation, mostly originating from IMO(International Maritime Organisation).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.

The implication of Brexit is unclear at the moment and will be continually monitored.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Treasury operations and financial instruments

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's owned vessel is financed by way of a finance lease with a variable level of interest rate. 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 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.

Market/price risk

The existence of a fixed contract for a period exceeding 12 months shelters the Company's main turnover to a certain extent.

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.

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.

By order of the Board



B Y Ramlalsing
Secretary

Date: 17 May 2017

Registered No. 5356484

Directors’ Report

The Directors present their Directors’ Report and audited financial statements of “K” Line LNG Shipping (UK) limited (the “Company”) for the financial year ended 31 March 2017.

Directors

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

Y Goto

S Sato

Dividends and financial risk management

The Directors do not recommend a final dividend (year ended 31 March 2016 – US \$nil).

Financial risk management disclosure is included in the Strategic Report on page 3.

Future developments

The Directors aim to maintain the management policies which aim to improve the Company’s profitability. They consider that the new financial year will provide a more stable growth in turnover arising from continuing operations because of the continuity of the contract for the time charter of the owned vessel and the restructuring of the finance lease.

The joint-venture consortium of the Company and Chandris Hellas Inc entered into long-term Time Charter contracts with the BP group for two LNG Carrier newbuilds. The vessels are scheduled to be delivered in 2018. The Company will undertake the provision of ship management services for the two vessels.

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 3.

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

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

Directors’ indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors’ and Officers’ liability insurance in respect of itself and its Directors.

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Company’s auditors, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The financial risk management disclosure has been provided in the Strategic report.



S Sato
Director

Date: 17 May 2017

Statement of Directors’ responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law). Under company law the directors must not approve the financial statements unless they are 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 period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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) Ltd

Report on the financial statements

Our opinion

In our opinion, "K" Line LNG 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 2017 and of its profit 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

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 March 2017;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

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.

Independent auditors' report to the members of "K" Line LNG Shipping (UK) Ltd

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are 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 directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' 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 Annual Report 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. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

17 May 2017

Income statement

for the year ended 31 March 2017

		<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
	<i>Note</i>		
Turnover	2	76,709,115	89,625,038
Cost of sales		(52,070,569)	(65,021,818)
Gross profit		24,638,546	24,603,220
Administrative expenses		(7,933,945)	(7,597,094)
Operating profit	3	16,704,601	17,006,126
Interest receivable and similar income	7	242,850	159,521
Interest payable and similar charges	8	(2,256,283)	(3,854,897)
Profit before taxation		14,691,168	13,310,750
Tax on profit	9	55,399	(37,866)
Profit for the financial year		<u>14,746,567</u>	<u>13,272,884</u>

All amounts relate to continuing activities.

Statement of comprehensive income

for the year ended 31 March 2017

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Profit for the financial year	14,746,567	13,272,884
Other comprehensive income:		
<i>Items that are or may be recycled subsequently to the Income statement</i>		
Movement in fair value of cash flow hedges	3,331,388	-
Other comprehensive income for the year	<u>3,331,388</u>	<u>-</u>
Total comprehensive income for the year	<u>18,077,955</u>	<u>13,272,884</u>

The notes on pages 12 to 25 form an integral part of these financial statements.

Balance sheet

as at 31 March 2017

	Note	31 March 2017 US\$	31 March 2016 US\$
Fixed assets			
Tangible assets	10	112,545,254	117,999,483
Investments	11	35,114,614	30,154,851
Total fixed assets		<u>147,659,868</u>	<u>148,154,334</u>
Current assets			
Debtors	12	24,876,616	23,903,720
Cash at bank and in hand		<u>19,202,608</u>	<u>11,278,949</u>
		44,079,224	35,182,669
Creditors: amounts falling due within one year	13	<u>(14,832,134)</u>	<u>(16,050,857)</u>
Net current assets		<u>29,247,090</u>	<u>19,131,812</u>
Total assets less current liabilities		<u>176,906,958</u>	<u>167,286,146</u>
Creditors: amounts falling due after more than one year			
	14	<u>(86,685,714)</u>	<u>(95,142,857)</u>
Net assets		<u>90,221,244</u>	<u>72,143,289</u>
Capital and reserves			
Called up share capital	16	40,900,233	40,900,233
Other reserves		3,331,388	–
Retained earnings		<u>45,989,623</u>	<u>31,243,056</u>
Total shareholders' funds		<u>90,221,244</u>	<u>72,143,289</u>

The notes on pages 12 to 25 form an integral part of these financial statements

The financial statements on pages 9 to 25 were approved by the Board of Directors and signed on their behalf by:



Y Goto
Director

Date: 17 May 2017

Statement of changes in equity

for the year ended 31 March 2017

	Called-up share capital US\$	Other reserves US\$	Retained earnings US\$	Total shareholders' funds US\$
At 1 April 2016	40,900,233	—	31,243,056	72,143,289
Profit for the year	—	—	14,746,567	14,746,567
Other comprehensive income for the year	—	3,331,388	—	3,331,388
At 31 March 2017	<u>40,900,233</u>	<u>3,331,388</u>	<u>45,989,623</u>	<u>90,221,244</u>

	Called-up share capital US\$	Other reserves US\$	Retained earnings US\$	Total shareholders' funds US\$
At 1 April 2015	40,900,233	—	17,970,172	58,870,405
Profit for the year	—	—	13,272,884	13,272,884
Other comprehensive income for the year	—	—	—	—
At 31 March 2016	<u>40,900,233</u>	<u>—</u>	<u>31,243,056</u>	<u>72,143,289</u>

Notes to the financial statements

for the year ended 31 March 2017

1. Accounting policies

General Information

The Company is limited by shares and is incorporated in England. The address of its registered office is 6th Floor, 200 Aldersgate Street, London, EC1A 4HD.

The principal activity of the Company continues to be the ownership of one LNG vessel and ship management operations of LNG vessels.

Statement of compliance

The financial statements of “K” Line LNG Shipping (UK) Limited have been prepared in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (“FRS 102”) and the Companies Act 2006.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company’s shareholders.

The Company has taken advantage of the following exemptions:

- i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows prepared by ultimate parent company, includes the Company’s cash flows;
- ii) from providing the financial instruments disclosures set out in sections 11 and 12 of FRS 102;
- iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv);
- iv) from disclosing the Company key management personnel compensation in total, as required by FRS 102 paragraph 33.7.

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

Going concern

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

Notes to the financial statements (continued)

for the year ended 31 March 2017

1. Accounting policies (continued)

Turnover recognition

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

i) Charter hire income

The time charter equivalent of income from the Company's vessel chartering activities is recognised on a straight line basis over the period of the contract.

ii) Management fees

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

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and 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 economic useful life, as follows:

Vessel	–	30	years
Dry docking	–	2.5 – 5	years
Equipment	–	3	years

The Company's vessel is required to undergo periodic dry dockings 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.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Capitalisation of interest

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

Investments

Investments in subsidiaries, joint ventures, associates and trade investments are stated at cost less provision for impairment. Impairment reviews are carried out if there is an indication of a reduction in value. Dividends from investments are recognised when received or approved for payment by the investee.

Notes to the financial statements (continued)

for the year ended 31 March 2017

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.

Taxation

i) Current tax

Current tax is provided using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date on the excess of taxable income and allowable expenses. The Company is also subject to corporation tax under the UK Tonnage Tax regime.

ii) 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.

Foreign currencies

i) Functional and presentation currency:

The Company's functional and presentation currency is US\$.

ii) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates ruling at the balance sheet date. Transactions in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction.

The exchange rate between GBP and USD was 1.2505 at 31 March 2017 (31 March 2016 – 1.4373).

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and bank overdrafts. Bank overdrafts, when applicable, are shown within creditors in current liabilities.

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.

Pension contributions

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 (continued)

for the year ended 31 March 2017

1. Accounting policies (continued)

Financial instruments

i) Financial assets

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in statement of income and retained earnings.

ii) Financial liabilities

Basic financial liabilities, including trade creditors and other creditors and short term loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current creditors. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the statement of income and retained earnings in finance costs or finance income as appropriate, unless they are included in a hedging arrangement when the changes in fair value are recognised in the Statement of changes in equity.

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Operating leases

Rental payments under operating leases are charged to the statement of income and retained earnings on a straight-line basis over the lease term.

Notes to the financial statements (continued)

for the year ended 31 March 2017

1. Accounting policies (continued)

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 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 represents the difference between the total leasing commitments and the fair value of assets acquired, is recognised as an expense in the statement of income and retained earnings 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 period.

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Company has critical accounting judgement in the following area:

Useful life of vessel: The Company has estimated that the vessel will be scrapped after 30 years based on today's industry experience and the fact that it may prove difficult to find charterers willing to charter a vessel of this age.

Notes to the financial statements (continued)

for the year ended 31 March 2017

2. Turnover

Turnover, which arises on continuing activities, represents the amounts receivable for ship management services and time charter income for owned vessel Celestine River provided during the year, exclusive of VAT.

An analysis of turnover by geographical market is given below:

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
UK	47,179,075	44,691,009
Rest of the World	29,530,040	44,934,029
	<u>76,709,115</u>	<u>89,625,038</u>
Income from ship management services	<u>27,980,565</u>	<u>28,126,344</u>

3. Operating profit

This is stated after charging/ (crediting):

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Auditors' remuneration	<u>46,229</u>	<u>51,620</u>
Depreciation of owned assets	57,063	51,635
Depreciation of leased assets	5,430,205	5,728,902
Net (gain) / loss on foreign currency translation	<u>(14,037)</u>	<u>119,707</u>

4. Auditors' remuneration

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Audit of the financial statements for the current year	<u>46,229</u>	<u>51,620</u>
	<u>46,229</u>	<u>51,620</u>

Notes to the financial statements (continued)

for the year ended 31 March 2017

5. Directors' remuneration

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Remuneration	<u>457,051</u>	<u>466,156</u>

No pension contributions were paid by the Company to Directors during the year.

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

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Remuneration	<u>329,292</u>	<u>333,625</u>

6. Staff costs

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Wages and salaries	3,674,016	3,371,262
Social security costs	306,258	255,996
Other pension costs	<u>203,296</u>	<u>208,164</u>
	<u>4,183,570</u>	<u>3,835,422</u>

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

	<i>No.</i>	<i>No.</i>
Administrative staff	<u>36</u>	<u>29</u>

7. Interest receivable and similar income

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Bank interest receivable	103,983	57,790
Loan interest receivable from group undertakings	138,734	101,684
Other interest receivable	<u>133</u>	<u>47</u>
	<u>242,850</u>	<u>159,521</u>

Notes to the financial statements (continued)

for the year ended 31 March 2017

8. Interest payable and similar charges

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Finance lease and other interest payable	2,256,283	3,854,897
	<u>2,256,283</u>	<u>3,854,897</u>

The Finance lease interest payable for year ended 31 March 2017 is \$2,009,910 (2016: \$2,096,168). The guarantee fees payable for the year ended 31 March 2017 amounted to \$125,445 (2016: \$154,163). The lease refinance fees payable for the year ended 31 March 2017 amounted to \$nil (2016: \$1,604,566). The SWAP interest payable for the year ended 31 March 2017 amounted to \$120,928 (2016: \$nil).

9. Tax on profit

(a) Tax on profit

The tax charge is made up as follows:

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Current tax:		
UK corporation tax on the profit for the year	10,211	48,262
Group relief receivable	(68,537)	–
Adjustments in respect of previous periods	2,663	20,548
Total current tax	<u>(55,663)</u>	<u>68,810</u>
Deferred tax:		
Origination and reversal of timing differences	(912)	(1,014)
Adjustments in respect of previous periods	–	(32,009)
Effect of changes in tax rate on opening balance	1,176	2,079
Total deferred tax (note 9(c))	<u>264</u>	<u>(30,944)</u>
Total tax per Income statement	<u>(55,399)</u>	<u>37,866</u>

Notes to the financial statements (continued)

for the year ended 31 March 2017

9. Tax on profit (continued)

(b) Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016 – 20%). The differences are reconciled below:

	<i>Year ended 31 March 2017 US\$</i>	<i>Year ended 31 March 2016 US\$</i>
Profit on ordinary activities before taxation	<u>14,691,169</u>	<u>13,310,750</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 – 20%)	2,938,234	2,662,150
<i>Effects of:</i>		
Non-taxable income	(3,007,683)	(2,625,540)
Adjustments in respect of previous periods	2,663	(12,046)
Tax rate changes	1,176	2,079
Tonnage tax profit	10,211	11,223
Recognition of previously unrecognised deferred tax	–	–
Total tax for the year (note 9(a))	<u>(55,399)</u>	<u>37,866</u>

Non-taxable income principally relates to activities falling within the UK Tonnage Tax regime.

(c) Deferred tax

The deferred tax asset/(liability) included in the balance sheet is as follows:

	<i>31 March 2017 US\$</i>	<i>31 March 2016 US\$</i>
Deferred tax asset	<u>18,444</u>	<u>18,708</u>
Deferred tax liability at 1 April	18,708	(12,236)
Adjustments in respect of previous periods	–	32,009
Deferred tax charge to Income statement for the year (note 9(a))	(264)	(1,065)
Deferred tax asset/(liability) at 31 March	<u>18,444</u>	<u>18,708</u>

Notes to the financial statements (continued)

for the year ended 31 March 2017

10. Tangible assets

	<i>Vessel US\$</i>	<i>Equipment US\$</i>	<i>Total US\$</i>
Cost:			
At 1 April 2016	162,591,922	352,646	162,944,568
Additions	–	33,039	33,039
At 31 March 2017	<u>162,591,922</u>	<u>385,685</u>	<u>162,977,607</u>
Accumulated depreciation:			
At 1 April 2016	44,726,178	218,907	44,945,085
Charge for the year	5,430,205	57,063	5,487,268
At 31 March 2017	<u>50,156,383</u>	<u>275,970</u>	<u>50,432,353</u>
Net book value:			
At 31 March 2017	<u>112,435,539</u>	<u>109,715</u>	<u>112,545,254</u>
At 31 March 2016	<u>117,865,744</u>	<u>133,739</u>	<u>117,999,483</u>

Vessel with net book value of US\$112,435,539 (2016 – US\$117,865,744) has been placed as security under finance lease arrangement.

11. Investments

	<i>31 March 2017 US\$</i>	<i>31 March 2016 US\$</i>
Investment in joint venture	<u>35,114,614</u>	<u>30,154,851</u>
	<u>35,114,614</u>	<u>30,154,851</u>

During the year "K" Line LNG Shipping (UK) Limited contributed US\$4,643,023 (year ended 31 March 2016 - US\$13,965,468) to a joint venture investment agreement with Chandris - Artemis Gas I Shipping Inc. (Marshall Island). This investment represents a share of 30% of the co-ownership of a new LNG vessel 'PATRIS' expected to be delivered early 2018. Prior to the delivery of the vessels "K" Line LNG Shipping (UK) Limited are committed to paying a further US\$5,469,480 (2016: US\$10,112,504).

During the year "K" Line LNG Shipping (UK) Limited contributed US\$316,740 (year ended 31 March 2016 - US\$16,209,383) to a joint venture investment agreement with Chandris - Danae Gas Shipping Inc. (Marshall Island). This investment represents a share of 37.5% of the co-ownership of a new LNG vessel 'KINSIS' expected to be delivered late 2018. Prior to the delivery of the vessels "K" Line LNG Shipping (UK) Limited are committed to paying a further US\$4,334,261 (2016: US\$4,651,001).

Notes to the financial statements (continued)

for the year ended 31 March 2017

12. Debtors

	<i>31 March 2017 US\$</i>	<i>31 March 2016 US\$</i>
Amounts owed by group undertakings	68,537	–
Amounts owed by related party undertakings	1,086,070	20,671
Loans receivable from group undertaking	17,774,908	17,636,173
Corporation tax receivable	15,105	–
Deferred tax	18,444	18,708
Other debtors	2,166,742	4,721,234
Derivative financial instruments	3,331,388	–
Prepayments and accrued income	415,422	1,506,934
	<u>24,876,616</u>	<u>23,903,720</u>

Amounts owed from group undertakings are unsecured, with no interest and no fixed repayment date. Loans receivable from group companies are unsecured and governed by a rolling contract, with interest rates fixed every 3 months based on LIBOR at the date of agreement, and repayable within 5 working days once demanded.

Amounts falling due after more than one year included above are Derivative financial instruments amounting to \$3,331,388 (2016: \$nil) (note 17).

13. Creditors: amounts falling due within one year

	<i>31 March 2017 US\$</i>	<i>31 March 2016 US\$</i>
Trade creditors	1,970,597	2,797,022
Amounts owed to group undertakings	60,454	67,645
Corporation tax	–	30,158
Obligations under finance leases and hire purchase contracts (note 15)	8,457,143	8,457,143
Accruals and deferred income	4,343,940	4,698,889
	<u>14,832,134</u>	<u>16,050,857</u>

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

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

	<i>31 March 2017 US\$</i>	<i>31 March 2016 US\$</i>
Obligations under finance leases and hire purchase contracts (note 15)	<u>86,685,714</u>	<u>95,142,857</u>

Notes to the financial statements (continued)

for the year ended 31 March 2017

15. Obligations under finance leases and hire purchase contracts

Amounts due under finance leases:

	31 March 2017 US\$	31 March 2016 US\$
Amounts payable:		
Within one year	9,879,501	10,010,263
In two to five years	38,213,421	38,736,472
In more than five years	55,435,048	64,791,499
	<u>103,527,970</u>	<u>113,538,234</u>
Less: finance charges allocated to future periods	<u>(8,385,113)</u>	<u>(9,938,234)</u>
	<u>95,142,857</u>	<u>103,600,000</u>

Analysis of present value of finance lease liabilities:

	31 March 2017 US\$	31 March 2016 US\$
In one year or less or on demand	8,457,143	8,457,143
In more than one year but not more than five years	33,828,571	33,828,571
In more than five years	52,857,143	61,314,286
	<u>95,142,857</u>	<u>103,600,000</u>

In September 2015, the Company terminated its finance lease arrangement related to the Celestine River, repaid a \$28m loan to the lenders, and entered into a new finance lease arrangement with the two original lenders who were party to the previous finance lease arrangement via a new third party Company ("the counter party"). The counter party which is beneficially owned by two Japanese banks (two of the original lenders) entered into a loan financing arrangement with these banks to finance the new finance lease arrangement with the Company.

The substance of the above terms is that the counter party which is the contractual party of the new finance lease arrangement is acting as a special purpose vehicle on behalf of the banks and the transaction effectively represents a secured bank loan with a maturity of 14 years, until 2037.

The rate of interest payable on the finance lease is 1.2% above LIBOR.

16. Called up share capital

		31 March 2017 US\$		31 March 2016 US\$
Allotted, called up and fully paid	No.		No.	
Ordinary shares of £1 each	25,488,646	<u>40,900,233</u>	25,488,646	<u>40,900,233</u>

The issued share capital is denominated in GBP and has been translated into US\$ at the historical rates ruling on the respective dates when the shares were issued.

Notes to the financial statements (continued)

for the year ended 31 March 2017

17. Financial instruments

	<i>31 March 2017</i>	<i>31 March 2016</i>
	<i>US\$</i>	<i>US\$</i>
The Company has the following financial instruments:		
Financial assets – cash flow hedge		
Derivative financial assets	3,331,388	–
Financial assets that are debt instruments measured at amortised cost:		
Trade debtors (note 12)	1,349,596	301,730
Amounts owed by group undertakings (note 12)	17,843,445	17,636,173
Amounts owed by related party undertakings (note 12)	1,086,070	20,671
	<u>20,279,111</u>	<u>17,958,574</u>
Financial liabilities measured at amortised cost:		
Trade creditors (note 13)	1,970,597	2,797,022
Amounts owed to group undertakings (note 13)	60,454	67,645
Obligations under finance leases and hire purchase contracts (note 15)	95,142,857	103,600,000
	<u>97,173,908</u>	<u>106,464,667</u>

The Company uses interest rate swap contracts to reduce interest rate exposures. The fair values of the derivatives held at the balance sheet date (which was recognised in the financial statements), determined by reference to their market values.

The valuation was adjusted to reflect selected market risks. It was not adjusted to reflect credit, liquidity, model risk, operational cost, or other factors. Rather, it is meant to represent our best estimate of mid-market pricing as of the close of business on the valuation date. As this represents mid-market pricing, the actual price at which on any valuation date it would (subject to agreement) be possible to 'close out' the position would be adjusted for bid/ offer spreads and market liquidity.

18. 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\$203,296 (2016 – US\$208,164). The amount of outstanding contributions at the year end was US \$nil (2016 – US \$nil).

19. Related party transactions

The Company has taken advantage of the exemption available in Section 33.1A of FRS 102 from disclosing transactions with related parties, which are 100% owned and controlled within the Kawasaki Kisen Kaisha Limited group.

Notes to the financial statements (continued)

for the year ended 31 March 2017

19. Related party transactions (continued)

Other related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March 2017, are as follows:

	<i>Income from related party US\$</i>	<i>Amounts owed from related party US\$</i>	<i>Amounts owed to related party US\$</i>
<i>Related party</i>			
Polar LNG Shipping Limited			
31 March 2017	22,119,205	–	
31 March 2016	16,564,665	1,000	–
J5 Nakilat No.3 Limited			
31 March 2017	7,695,793	1,069,635	–
31 March 2016	10,232,756	–	–
J5 Nakilat No.7 Limited			
31 March 2017	6,193,909	–	–
31 March 2016	6,593,942	1,581	–
Peninsula LNG No.2 Limited			
31 March 2017	6,856,325	16,435	–
31 March 2016	15,062,830	14,658	–
Trinity LNG Transport S.A			
31 March 2017	11,173,564	–	–
31 March 2016	12,025,542	3,432	–
Total at 31 March 2017	<u>54,038,796</u>	<u>1,086,070</u>	<u>–</u>
Total at 31 March 2016	<u>60,479,735</u>	<u>20,671</u>	<u>–</u>

The above companies are affiliates of Kawasaki Kisen Kaisha Limited (the ultimate parent undertaking of “K” Line Holding (Europe) Limited).

20. 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 Buildings, 1-1 Uchisaiwaicho 2 – Chome, Chiyoda-ku, Tokyo 100-8540, Japan.