

Watling Street Shipping Limited

Report and Financial Statements

**For the year to
31 December 2011**

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Watling Street Shipping Limited
Report and Financial Statements

For the year to
31 December 2011

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Watling Street Shipping Limited

Report of the Directors to

31 December 2011

Report of the Director

The director submits his annual report together with the audited financial statements for the year to 31 December 2011

Secretary and Registered Office

The Company secretary is Carmel Marie McLoughlin and the registered office is 25 Moorgate, London, EC2R 6AY

Review of Activities and Review of Business

The principal activities of the Company continued to be those of a ship owning and operating company

The vessel was chartered throughout the year at rates of between €12,000 and €14,750 per day

Since the year end the vessel has been sold for €34,850,000

The Company has used the proceeds on sale to repay part of its long term debt, however it will be unable to repay all of its remaining liabilities and the director intends to formally liquidate the Company in the foreseeable future. The Company has taken steps to ensure that all of its trade and related payables will be settled

Key Performance Indicators

Given the vessel has been sold since the year end, and the director intends to formally liquidate the Company in the foreseeable future, no key performance indicators are considered to be relevant

Key Risks and Uncertainties

The key risk facing the Company is considered to be the ongoing availability of finance as the Company was in breach of loan covenants on its long term debt. Since the year end, the vessel has been sold and the director intends to formally liquidate the Company

Results and Dividends

The Company's results are set out on page 6. The loss attributable to shareholders of €9,944,435 (2010: €9,768,595) has been transferred to reserves. The director does not recommend the payment of a dividend

The Company is a subsidiary of New Paragon Investments Limited, a company incorporated in Hong Kong, which had a business of investing in ship owning companies. On 16 May 2011, the parent company filed for liquidation and on 8 June 2011 HSH Nordbank AG ("HSH") exercised its rights under the loan facility and the shares of the Company were transferred from New Paragon Investments Limited to HSH's appointed nominee Epic Shipping Project 7 Limited

This transfer does not affect the beneficial ownership of the Company. The day to day administrative management of the Company is undertaken by Meridian Shipping Limited, a company incorporated in the United Kingdom

Watling Street Shipping Limited

Report of the Directors to

31 December 2011

Report of the Director

Directors

The directors during the financial year and up to the date of this report were as follows

Dirk Van den Broeck (resigned on 6 April 2011)
John Gordon Davis (appointed on 8 June 2011, resigned on 29 February 2012)
Anthony Michael Dean (appointed on 8 June 2011, resigned on 29 February 2012)
Nicholas James White (appointed on 8 June 2011, resigned on 29 February 2012)
Stephen Richard Harding (appointed on 20 October 2010, resigned on 8 June 2011)
Guy Richard Asteer Lermينياux (appointed on 6 April 2011, resigned on 8 June 2011)
Nigel Rowland Hill (appointed on 29 February 2012)

Director's Declaration

The director confirms

- (a) so far as the director is aware, there is no relevant audit information of which the Company's independent auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director, including making appropriate enquiries of the Company's independent auditors for that purpose, in order to make him aware of any information needed by the Company's independent auditors in connection with preparing his report and to establish that the Company's independent auditors are aware of that information

By order of the board on 20/09/2012



Nigel Rowland Hill
Director

Independent Auditors' Report to the Shareholder of

Watling Street Shipping Limited

We have audited the financial statements of Watling Street Shipping Limited for the year ended 31 December 2011 which are set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements have been prepared on a break up basis.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the director and auditors

As explained more fully in the Statement of Director's Responsibilities set out on page 5, the director is 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditors' Report to the Shareholder of

Watling Street Shipping Limited

Emphasis of matter – basis of preparation

As disclosed in note 2(a), the financial statements have been prepared on a break up basis as the vessel has been sold since the year end and it is the intention of the director to formally liquidate the Company. Our opinion is not qualified in this respect.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Joanne Allen, Senior Statutory Auditor
For and on behalf of
Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Date 26 September 2012

Watling Street Shipping Limited
Statement of Directors' Responsibilities to
31 December 2011

Statement of Director's Responsibilities

The Director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company, such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view. In preparing these financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union,
- prepare the financial statements on an appropriate basis, which the director believes to be a break up basis

The director is 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. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Watling Street Shipping LimitedFinancial statements for the year to
31 December 2011

Company Number. 06472241

Statement of Comprehensive Income*(Expressed in Euros)*

	Note	2011 €	2010 €
Revenue	2(j)	4,432,695	4,099,643
Vessel operating costs		(3,924,857)	(6,086,843)
Administrative expenses		(97,350)	(93,082)
Income/(loss) from operations	4	410,488	(2,080,282)
Other income		118,081	-
Finance costs, net	5	(1,221,416)	(1,378,601)
Impairment charge		(9,251,588)	(6,309,712)
Loss before tax		(9,944,435)	(9,768,595)
Income tax	6	-	-
Total comprehensive loss for the year		(9,944,435)	(9,768,595)

The Company did not have any other comprehensive income during the year

The notes on pages 10 to 20 form part of these financial statements

Watling Street Shipping LimitedFinancial statements for the year to
31 December 2011

Company Number 06472241

Statement of Financial Position
(Expressed in Euros)

	Note	2011 €	2010 €
Current assets			
Inventories	10	60,620	63,851
Trade and other receivables	11	442,674	165,783
Cash and cash equivalents	12	721,034	636,574
		<u>1,224,328</u>	<u>866,208</u>
Vessel, held for sale	9	34,850,000	44,000,000
Total assets		<u>36,074,328</u>	<u>44,866,208</u>
Current liabilities			
Current portion of long term debt	14	37,152,216	39,714,440
Trade and other payables	13	675,969	761,260
Amounts due to fellow subsidiary		2,336,250	-
Amounts due to parent company	15	31,410,288	29,946,468
		<u>71,574,723</u>	<u>70,422,168</u>
Total liabilities		<u>71,574,723</u>	<u>70,422,168</u>
Capital and reserves			
Share capital	16	1	1
Accumulated losses		<u>(35,500,396)</u>	<u>(25,555,961)</u>
Total deficit		<u>(35,500,395)</u>	<u>(25,555,960)</u>
Total equity and liabilities		<u>36,074,328</u>	<u>44,866,208</u>

Approved and authorised for issue on 20/09/2012


 Nigel Rowland Hill
 Director

The notes on pages 10 to 20 form part of these financial statements

Watling Street Shipping LimitedFinancial statements for the year to
31 December 2011**Statement of Changes in Equity***(Expressed in Euros)*

	Share Capital €	Accumulated Losses €	Other Reserves €
At 1 January 2011	1	(15,787,366)	(15,787,365)
Comprehensive loss for the year	-	(9,768,595)	(9,768,595)
At 1 January 2011	1	(25,555,961)	(25,555,960)
Comprehensive loss for the Year	-	(9,944,435)	(9,944,435)
At 31 December 2011	1	(35,500,396)	(35,500,395)

Watling Street Shipping Limited

Financial statements for the year to

31 December 2011

Statement of Cash Flows

(Expressed in Euros)

	Note	2011 €	2010 €
Operating activities			
Loss for the year		(9,944,435)	(9,768,595)
Adjustments for			
- Depreciation	9	-	2,300,962
- Interest expense	5	1,221,440	1,099,954
- Interest income	5	(24)	(1)
- Impairment	9	9,251,588	6,309,712
- Amortisation of loan arrangement fees	5	-	229,987
- Allowance for doubtful trade receivables	4	3,698	-
		<u>532,267</u>	<u>172,019</u>
(Increase)/decrease in trade and other receivables		(280,588)	79,769
Decrease in inventories		3,231	98,142
Increase/(decrease) in trade and other payables		<u>2,343,390</u>	<u>(53,973)</u>
Cash generated from operations		<u>2,598,300</u>	<u>295,957</u>
Net interest paid		<u>(1,313,872)</u>	<u>(1,106,383)</u>
Net cash generated from/(used in) operating activities		<u>1,284,428</u>	<u>(810,426)</u>
Investing activities			
Payment for dry-docking costs	9	<u>(101,588)</u>	<u>(110,674)</u>
Net cash used in investing activities		<u>(101,588)</u>	<u>(110,674)</u>
Financing activities			
Advance from parent company		1,463,820	3,808,157
Repayment of long term debt		(2,562,224)	(2,562,224)
Interest income		24	-
Net cash (used in)/generated from financing activities		<u>(1,098,380)</u>	<u>1,245,933</u>
Net increase in cash and cash equivalents		<u>84,460</u>	<u>324,833</u>
Cash and cash equivalents at beginning of year		<u>636,574</u>	<u>311,741</u>
Cash and cash equivalents at end of year (Note 12)		<u>721,034</u>	<u>636,574</u>

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements

1 General

Watling Street Shipping Limited (the "Company") is incorporated and domiciled in the United Kingdom. The principal place of business during the year was 25 Moorgate, London, EC2R 6AY. The Company is a wholly owned subsidiary of New Paragon Investments Limited (the "Group").

The activity of the Company is owning and chartering out a ro-pax vessel under a fixed rate time charter. Since the year end, the vessel has been sold and the Company has ceased trading.

2 Significant Accounting Policies

(a) Going Concern

The financial statements have been prepared on the break up basis, as the Company has ceased trading and it is the intention of the director to liquidate the Company.

(b) Basis of Preparation of the Financial Statements

The financial statements have been prepared on the break up basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are stated in Euro, being the functional currency of the Company. The principal accounting policies adopted are set out below.

The Company has adopted the new interpretations and revised standards effective for the year ended 31 December 2011. The adoption of these interpretations and revised standards did not have a significant impact on the financial statements during the year.

A number of new standards and amendments to existing standards have been published which are mandatory, but are not effective for the year ended 31 December 2011. The directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements as the Company is expected to be liquidated.

(c) Vessel

The vessel has been reclassified as held for sale, and is stated at the lower of its carrying amount at the date of reclassification and its fair value less costs to sell. No depreciation has been charged since the vessel was classified as held for sale.

(d) Inventories

Inventories comprising bunkers, lubricating oil, victualling and bonded stores are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis.

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(e) Trade and Other Receivables

The Company carries its accounts receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs, collections and current credit conditions. The Company does not generally charge interest on past-due accounts unless the accounts are subject to legal action, and accounts are written off as uncollectible when all reasonable collection efforts have failed. Accounts are deemed as past-due based on contractual terms.

(f) Interest-bearing Borrowings and Borrowing Costs

Interest-bearing borrowings are stated at the contractual amounts without taking any account of attributable transaction costs.

Previously, interest-bearing borrowings were recognised at fair value, being proceeds received less any attributable transaction costs. Borrowings were subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value was recognised in the income statement over the period of the borrowings using the effective interest method.

(g) Trade and Other Payables

Trade and other payables are recognised at fair value.

(h) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(i) Taxation

The Company has entered the UK tax tonnage regime, under which its ship operating activities are taxed based on the net tonnage of vessels operated. Amounts are recorded within vessel operating costs. Any income and profits outside the tonnage tax regime are taxed under the normal U K corporation tax rates.

(j) Revenue Recognition

The Company charters out its vessel on a time charter which involves placing the vessel at the charterer's disposal for a period of time during which the charterer uses the vessel in return for the payment of a specified fixed daily hire rate. Such revenues are accounted for as operating leases as a significant portion of the risks and rewards of ownership are retained by the Company. Revenue is recognised on a straight line basis as service is performed.

Under time charter arrangements the Company, as lessor, is responsible for all the operating expenses of the vessel such as crew costs, insurance, repairs and maintenance, and such costs are expensed as incurred.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(k) Foreign Currencies

The Company's functional currency is the Euro as this reflects the primary economic environment in which the entity operates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the reporting date. Expenses paid in foreign currencies are recorded at the rate of exchange at the transaction date. Exchange gains and losses are included in the determination of total comprehensive income for the year.

(l) Finance Costs

Finance costs are determined based on the interest rate applicable to the related borrowing and expensed in the profit or loss in the year in which they are incurred.

(m) Related Parties

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

(n) Repairs and Maintenance

All expenditure relating to routine repairs and maintenance is expensed when incurred.

(o) Insurance

The Company maintains hull and machinery insurance, war risk insurance, protection and indemnity insurance coverage, increased value insurance, demurrage and defence insurance coverage in amounts considered prudent to cover normal risks in the ordinary course of its operations. Premiums paid in advance to insurance companies are recognised as prepaid expenses and expensed over the period covered by the insurance contract.

3 Critical Accounting Estimates

Critical accounting judgements concerning the future or key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements are the estimate of the recoverable amount of the vessel and other assets held by the Company and the amount that will need to be paid to extinguish the Company's liabilities. The vessel has been sold post year end and the recoverable amount of the vessel is therefore no longer considered to be a critical accounting estimate.

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements**4 Income/(Loss) from Operations**

Income/(loss) from operations is arrived at after charging/(crediting)

	2011	2010
	€	€
Vessel operating costs		
Bunkers expensed	240,188	156,558
Tonnage tax	6,875	3,797
Administrative expenses		
Auditor's remuneration	18,778	19,583
Tax service fees	2,994	5,930
Allowance for doubtful trade receivables	3,698	-
(Gain)/loss on exchange	(3,411)	10,419
	<u> </u>	<u> </u>

5 Finance Costs, Net

	2011	2010
	€	€
Amortisation of loan arrangement fees	-	229,987
Bank transaction cost	-	48,661
Interest expense on long term debt	1,221,440	1,099,954
Interest income	(24)	(1)
	<u> </u>	<u> </u>
	<u>1,221,416</u>	<u>1,378,601</u>

6 Income Tax

The entire loss before tax is subject to the UK tonnage tax regime. The Company bears no income tax.

7 Employees

There were no employees employed by the Company in the year (2010 Nil)

8 Key Management Remuneration

No key management remuneration has been paid nor is payable for the year (2010 Nil)

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements

9 Vessel, available for sale

	Vessel €	Drydocking €	Total €
Cost:			
At 1 January 2010	65,714,627	390,000	66,104,627
Additions	-	110,674	110,674
	<hr/>	<hr/>	<hr/>
At 31 December 2010	65,714,627	500,674	66,215,301
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At 1 January 2010	13,357,627	247,000	13,604,627
Charge for the year	2,099,990	200,972	2,300,962
Impairment	6,309,712	-	6,309,712
	<hr/>	<hr/>	<hr/>
At 31 December 2010	21,767,329	447,972	22,215,301
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 December 2010	43,947,298	52,702	44,000,000
	<hr/>	<hr/>	<hr/>
Transfer to held for sale	43,947,298	52,702	44,000,000
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 December 2010	-	-	-
	<hr/>	<hr/>	<hr/>
			2011
			€

Fair value at 1 January 2011	44,000,000
Drydocking	101,588
Impairment charge	<u>(9,251,588)</u>
Fair value at 31 December 2011	<u>34,850,000</u>

Since the year end the vessel has been sold. The vessel has therefore been written down to its post year end sales price.

The Company's vessel was pledged to the bank as security for the loan facility granted (Note 14).

10 Inventories

	2011 €	2010 €
Lubricant oil	<u>60,620</u>	<u>63,851</u>

Watling Street Shipping LimitedFinancial statements for the year to
31 December 2011**Notes to the Financial Statements****11 Trade and Other Receivables**

	2011 €	2010 €
Trade receivables	43,245	23,183
Other receivables	347,441	101,103
Prepayments	51,988	41,497
	<u>442,674</u>	<u>165,783</u>

All trade and other receivables are expected to be recovered within one year

The Company's credit policy is set out in note 2(e) and an analysis of trade and other receivables is set out in note 17(b)(i)

An amount of €3,015,047 due from Iscomar S A has been fully provided for. The charterers failed to pay a number of hire installments in full and on time so the vessel was withdrawn from charter. The charter was guaranteed by Iscomar S A's parent company Contenemar S A. Both Iscomar S A and Contenemar S A have gone into insolvency. A claim has been made and accepted by the Court Administrators for €2,998,120 however it is uncertain whether any funds will be available to meet the claim.

The Company has not provided for the contingent asset as at 31 December 2011

12 Cash and Cash Equivalents

	2011 €	2010 €
Cash at bank	<u>721,034</u>	<u>636,574</u>

All bank balances have been pledged to the bank as security for the loan facilities granted (see Note 14)

13 Trade and Other Payables

	2011 €	2010 €
Trade payables	75,935	107,548
Other payables and accruals	414,242	450,712
Advance charter income	185,792	203,000
	<u>675,969</u>	<u>761,260</u>

All trade and other payables are due for settlement within one year

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements

14 Long Term Debt

At 31 December 2011, the bank loan was repayable as follows

	2011 €	2010 €
Within 1 year	<u>37,152,216</u>	<u>39,714,440</u>
Total	<u>37,152,216</u>	<u>39,714,440</u>

The Company and three of its fellow subsidiaries have established a €182,260,000 secured loan facility with HSH Nordbank, Deutsche Schiffsbank Aktiengesellschaft and DVB Bank N V. At 31 December 2008 the whole amount had been drawn down and the amount of €46,120,000 allocated to the Company. The Company is jointly and severally liable with the fellow subsidiaries for the total amount of the facility drawn down. At 31 December 2011 the total amount due under the facility amounted to €149,977,069 (2010 €160,102,629).

The loan bears interest at EURIBOR plus a margin of 1.85%. The loan allocated to the Company is repayable by forty quarterly installments of €640,556 each, together with a balloon payment of €20,497,760, payable together with the last installment.

The loan facility is secured by, inter alia, first priority mortgages on each of the vessels in the security package, a pledge of earnings, retention and security accounts, a pledge of shares of the vessel owning subsidiaries as well as assignments of earnings and insurances and a guarantee from the parent company. The financial covenants within the loan facility are:

- a) to maintain a minimum working capital of €300,000 in the security deposit account, and
- b) the aggregate market value of the vessels to be no less than 125% of the outstanding amount of the loan.

At the reporting date the Company and its fellow subsidiaries were in breach of loan covenant 14(b) and the entire loan balance has therefore been treated as repayable on demand in line with the terms of the loan agreement.

15 Amounts due to Parent Company

The loan from the parent company is non-trade related, unsecured and interest free.

The Company considers the balance due to the parent company to form part of its long term capital.

Repayment of the balance is subordinated to the long term debt.

The parent company filed for liquidation in the year

Watling Street Shipping LimitedFinancial statements for the year to
31 December 2011**Notes to the Financial Statements****16 Share Capital**

	2011		2010	
	No. of shares	€	No. of shares	€
Authorised:				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,480</u>	<u>1,000</u>	<u>1,480</u>
Issued and fully paid:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

17 Financial Risk Management

The Company's activities expose it to a variety of financial risks credit risk, liquidity risk, interest rate risk, fair values and exchange rate risk

(a) Management of Capital

The Company regards the following as capital

	2011 €	2010 €
Shareholder's equity	(35,500,395)	(25,555,960)
Long term debt	37,152,216	39,714,440
Amounts due to parent company	<u>31,410,288</u>	<u>29,946,468</u>
Total capitalisation	<u>33,062,109</u>	<u>44,104,948</u>

The Company has been unable to meet its debt covenants and the long term loan is in default and is repayable on demand

(b) Financial Risks**(i) Credit risk**

The Company's credit risk is primarily attributable to trade receivables as the Company operated its chartering activity with a single customer for most of the year

The maximum exposure to credit risk on trade and other receivables at 31 December 2011 was €3,405,663 (2010 €3,139,333)

The Company has made an allowance for non-recoverability of €3,018,745 (2010 €3,015,047) against this amount

No other receivables are considered to be past due or impaired

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

Notes to the Financial Statements

17 Financial Risk Management (Continued)

(b) Financial Risks (Continued)

(i) Credit risk (continued)

Concentrations of credit risk exist to the extent that at 31 December 2011 and 2010 all current accounts and short-term deposits were held with one financial institution as follows

	Credit rating	Geographic region	2011 €	2010 €
HSH Nordbank AG	A-	Germany	<u>721,034</u>	<u>636,574</u>

The Company monitors credit risk on a daily basis, and manages risk by concentrating on chartering to reputable charterers and placing bank deposits with high quality counterparties

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations

The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash. However the Company continued to breach lending covenants in the year and has been unable to obtain additional funding from other sources

All liabilities are now due on demand

The Company is exposed to liquidity risk to the extent that its loan interest payment obligations may increase in the event of a significant increase in prevailing interest rates

(iii) Interest rate risk

The Company's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows

The Company's exposure to changes in interest rates relates primarily to its long term debt which is disclosed in note 14. Interest rate risk is managed by the Company on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates. There were no derivative instruments outstanding at the year end to limit the risk

Watling Street Shipping Limited

Financial statements for the year to
31 December 2011

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17 Financial Risk Management (Continued)

(b) Financial Risks (Continued)

(iii) Interest rate risk (continued)

The impact on the result for the year of a 100 b p change in the spot Euro 3 months EURIBOR rate at each fixing date would be an increase of approximately €372,000 (2010 €397,000) or decrease of €372,000 (2010 €397,000), respectively

(iv) Fair values

All financial assets are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010

The fair value of financial liabilities as at 31 December 2011 is considered to be €36,074,328 (2010 £44,866,208)

(v) Exchange rate risk

The Company is not exposed to significant exchange rate risk as all material assets and liabilities are denominated in Euros

18 Parent and Ultimate Holding Company

As at 31 December 2011 the Company was a wholly owned subsidiary of New Paragon Investments Limited, a company incorporated in Hong Kong. The Director regards this company as the ultimate parent company.

On 16 May 2011 New Paragon Investments Limited filed for liquidation.

On 8 June 2011 HSH Nordbank AG ("HSH") exercised its rights under the loan facility and the shares of the Company were transferred from New Paragon Investments Limited to HSH's appointed nominee Epic Shipping Project 7 Limited. This transfer does not affect the beneficial ownership of the Company.

19 Commitments

The Company charters out its vessel under a time charter party agreement which is classified as a non-cancellable operating lease. Time charter hire income is recognised as revenue in the statement of comprehensive income and the total revenue for the year amounted to €4,432,695 (2010 €4,099,643).

As at the reporting date the Company had contracted the following future minimum lease receipts:

	2011 €	2010 €
Within one year	1,820,000	1,515,650
	<u>1,820,000</u>	<u>1,515,650</u>

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20 Subsequent Events

On 9 May 2012 the vessel was sold to a 3rd party for €34,850,000. The net proceeds were used to repay part of the long term debt.