

“K” Line Holding (Europe) Limited

Report and Financial Statements

31 December 2010

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COMPANIES HOUSE

Directors

K Terashima (Managing Director)
T Suzuki
N Ando

Secretary

P Rogers

Auditor

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

Bankers

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

Registered Office

River Plate House
7-11 Finsbury Circus
London EC2M 7EA

Directors' report

The directors present their report and financial statements of the group for the year ended 31 December 2010

Results and dividends

The loss of the group for the year ended 31 December 2010 is shown in the group profit and loss account. The loss for the year after taxation was £41m (2009 – loss of £3m). The directors do not recommend the payment of any dividends. During the year, 49,315,881 ordinary shares of £1 each were issued at par for cash for a consideration of £49.3m.

Principal activities and review of the business

The company acts as a holding company. The principal activities of the group are that of general shipping agents for container ships and car carriers, operation and management of bulk, LNG and heavy lift vessels as well as road haulage.

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

	2010 £000	2009 £000	Change %
Turnover – group and share of joint venture	316,805	263,040	17%
Loss after tax	(40,775)	(3,015)	1252%
Shareholder's funds	140,492	135,276	4%
Cash at bank	47,786	25,626	86%

Turnover increased by 17% during the year which was mainly attributed to the increased number of vessels in operation and full year operation of cape size vessels delivered in 2009.

Events since the balance sheet date

"K" Line Heavy Lift (UK) Limited

Investments:

Additional investments made after the end of the financial year amount to €81,000 in "SAL Agency GmbH" on 16 March 2011 and €2.28m in HLL Lone GmbH & Co KG on 10 March 2011.

Transfer of shareholding:

On 13 May 2011, "K" Line Heavy Lift (UK) Limited sold all its shares held in "K" Line Heavy Lift (Germany) GmbH to Kawasaki Kisen Kaisha Ltd for an agreed price of €468,550.

On 27 May 2011, "K" Line Heavy Lift (UK) Limited sold all its interests in the SAL group of entities to "K" Line Heavy Lift (Germany) GmbH for an agreed price of €105,807,450 together with the inter-company balance receivable of €4,477,500. On the same date, a loan for an amount of €110,307,450 was granted to "K" Line Heavy Lift (Germany) GmbH with a maturity date of 15 July 2011 and interest of 2% pa.

As a result of the above activities, an impairment of investment amounting to €69,179,540 was considered appropriate by the management of the company, this has been accounted for as an Exceptional item in "K" Line Heavy Lift (UK) Limited financial statements.

On 23 June 2011, "K" Line Heavy Lift (UK) Limited issued 14,000,000 ordinary shares of €1 each to "K" Line Holding (Europe) Ltd, the full proceeds received were used to grant a loan to "K" Line Heavy Lift (Germany) GmbH with a maturity date of 15 July 2011 and interest of 2% pa.

Directors' report

Events since the balance sheet date (continued)

On 15 July 2011, "K" Line Heavy Lift (UK) Limited decided to replace the previous 2 loans receivable from "K" Line Heavy Lift (Germany) GmbH with a new loan for €112m with the balance having been repaid in July 2011. The terms of the new loan are maturity date of 15 July 2013 and interest of LIBOR+0.5 payable every 6 months.

Loans.

On 17 January 2011, "K" Line Heavy Lift (UK) Limited borrowed €1m from "K" Line Holding (Europe) Ltd. A further loan of €3m was secured on 10 March 2011. Both loans have a maturity date of 31 August 2011 with an interest rate of LIBOR+margin. On 15 July 2011, both loans amounting to €4m were fully repaid.

"K" Line Holding (Europe) Limited

Additional share capital issued:

On 23 June 2011, "K" Line Holding (Europe) Limited issued new ordinary shares of £1 each for £12.4m. On the same day, the additional funds received were used to increase the investment in "K" Line Heavy Lift (UK) Ltd.

Ralph Morton Transport Limited

Transfer of business:

On 20 August 2011, Ralph Morton Transport Limited transferred all its employees and physical assets to its sister company James Kemball Limited (JKL). Going forward, the K Line UK group's road haulage business would be run entirely by JKL in one enlarged operation.

Future developments

The directors aim to maintain and strengthen the management policies which will ensure the continuity of business in the foreseeable future. They consider that 2011 will show a slow growth in sales from continuing operations because of the current economic downturn, however, they believe that the latter part of year 2011 will start to bring positive results to the group as a whole.

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 group'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 group to generate a profit.

Directors' report

Principal risks and uncertainties (continued)

Treasury operations and financial instruments

The group 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 group 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 group 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 group 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. During the year, a forward freight agreement was also used to minimise the fluctuations in market freight rates

Liquidity risk

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

The group 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. Group 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 group does not suffer from significant bad debt expense

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out above

The group has considerable 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 group and company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the group and 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' report

Directors

The directors who served the company during the year and at the date of this report are as follows

K Terashima
T Suzuki (appointed on 1 July 2011)
K Kuroya (appointed on 1 April 2010 and resigned on 30 June 2011)
H Maekawa (resigned on 31 March 2010)
N Ando

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2010, the group had an average of 17 days' (2009 – 15 days') purchases outstanding in trade creditors

Employment policy

The group has given full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities

The group has a policy of employee involvement by making information available to all employees on matters of concern to them on a regular basis. Information concerning the group's business plans and financial performance is also published on the group's intranet and web sites. All employees have access to the group's intranet and internet.

The group maintains a policy of encouraging personal development and training

Disclosure of information to the auditor

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 auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

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

On behalf of the Board of Directors


N Ando

Director

21 SEP 2011

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). 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 group and the company and of the profit or loss of the group 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 group and company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of "K" Line Holding (Europe) Limited

We have audited the financial statements of "K" Line Holding (Europe) Limited for the year ended 31 December 2010 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group and Company balance sheets and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 directors and auditor

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). Those standards require us to comply with the Auditing Practices Board'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 and the group'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 Report and Financial Statements 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 group and company's affairs as at 31 December 2010 and of the group's loss 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

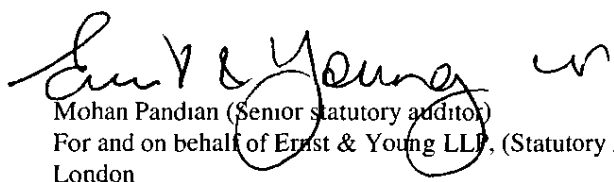
Independent auditor's report

to the members of "K" Line Holding (Europe) Limited

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, 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, 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



Mohan Pandian (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, (Statutory Auditor)
London

21 SEP 2011

Group profit and loss account

for the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> £000	<i>2009</i> £000
Turnover			
Total group and share of joint venture		316,805	263,040
Less share of joint venture turnover	2	(61,422)	(79,159)
		<hr/>	<hr/>
Cost of sales	2	255,383 (206,139)	183,881 (153,711)
		<hr/>	<hr/>
Gross profit		49,244	30,170
Administrative expenses		(20,107)	(23,864)
		<hr/>	<hr/>
Group operating profit	3	29,137	6,306
Share of operating profit in joint venture		(1,986)	16,991
Share of operating loss in associate		(547)	(114)
Amortisation of goodwill arising on acquisition of joint venture		(28,892)	(20,451)
		<hr/>	<hr/>
Total operating (loss)/profit: group and share of joint venture and associate		(2,288)	2,732
Interest receivable and similar income	7	449	1,114
Interest payable and similar charges	8	(9,675)	(12,000)
Exchange (losses)/gains – retranslation of loans	9	(30,985)	7,099
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(42,499)	(1,055)
Tax on loss on ordinary activities	10	1,724	(1,960)
		<hr/>	<hr/>
Loss for the financial year	22	(40,775)	(3,015)
		<hr/> <hr/>	<hr/> <hr/>

Group statement of total recognised gains and losses
for the year ended 31 December 2010

	2010 £000	2009 £000
Loss for the financial year excluding share of profit of joint venture and associate	(34,097)	(15,387)
Share of joint venture's (loss)/profit for the year	(6,143)	12,461
Share of associate's loss for the year	(535)	(89)
	<hr/>	<hr/>
Loss for the financial year attributable to members of the parent company	(40,775)	(3,015)
Exchange difference on retranslation of net assets of subsidiary undertaking	(3,325)	(23,101)
	<hr/>	<hr/>
Total recognised loss related to the year	(44,100)	(26,116)
	<hr/> <hr/>	<hr/> <hr/>

Group balance sheet

at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Tangible assets	12	327,579	323,743
		<u>327,579</u>	<u>323,743</u>
Investments			
Investment in joint venture			
Share of gross assets		189,239	226,002
Share of gross liabilities		(127,155)	(127,093)
		<u>62,084</u>	<u>98,909</u>
Investment in associate	13	(141)	394
Other investments	13	47	47
		<u>389,569</u>	<u>423,093</u>
Current assets			
Stocks	14	4,566	2,968
Debtors			
due after one year		156	150
due within one year		99,235	106,203
	15	<u>99,391</u>	<u>106,353</u>
Cash at bank and in hand		47,786	25,626
		<u>151,743</u>	<u>134,947</u>
Creditors amounts falling due within one year	16	(76,883)	(64,829)
		<u>74,860</u>	<u>70,118</u>
Net current assets			
		<u>464,429</u>	<u>493,211</u>
Total assets less current liabilities			
Creditors amounts falling due after more than one year	17	(323,921)	(348,146)
Provisions for liabilities			
Deferred taxation	20	(16)	(9,789)
		<u>140,492</u>	<u>135,276</u>
Net assets			
Capital and reserves			
Called up share capital	21	69,298	19,982
Profit and loss account	22	71,194	115,294
		<u>140,492</u>	<u>135,276</u>
Shareholder's funds	22		
		<u>140,492</u>	<u>135,276</u>

The financial statements were approved by the Board of Directors and signed on their behalf by

K Terashima
Director

Date

21 SEP 2011

Company balance sheet

at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Investments	13	45,113	50,010
Current assets			
Debtors			
amounts falling due after one year		156	150
amounts falling due within one year		208	123
Cash at bank and in hand	15	364 1,280	273 78
Creditors: amounts falling due within one year	16	1,644 (74)	351 (1,185)
Net current assets/(liabilities)		1,570	(834)
Total assets less current liabilities		46,683	49,176
Creditors: amounts falling due after more than one year	17	–	(30,195)
Net assets		46,683	18,981
Capital and reserves			
Called up share capital	21	69,298	19,982
Profit and loss account	22	(22,615)	(1,001)
Shareholder's funds	22	46,683	18,981

The financial statements were approved by the Board of Directors and signed on their behalf by



K Terashima

Director

Date

21 SEP 2011

Registered company number 5005018

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

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

Going concern

The directors have a reasonable expectation that the group and 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

Group financial statements

The group financial statements consolidate the financial statements of "K" Line Holding (Europe) Limited and its subsidiary undertakings. These financial statements are drawn up to 31 December each year. No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings acquired or disposed of in the year are included in the group profit and loss account from the date of acquisition or up to the date of disposal.

Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

Statement of cash flows

The company has taken advantage of the exemption available in FRS 1 (Revised) not to disclose a statement of cash flows as the company is a wholly owned subsidiary of a company whose financial statements are publicly available.

Tangible fixed assets

All fixed assets are initially recorded at cost.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold building	–	8 - 10 years straight line
Leasehold property	–	over the lease term
Fixtures and fittings	–	5 - 10 years straight line
Tractors and trailers	–	6 - 7 years straight line
Motor vehicles	–	25% reducing balance
Shipping vessels	–	15 - 30 years straight line
Dry docking assets	–	2 - 5 years straight line

Assets under construction are not depreciated.

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.

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life, assessed on an individual acquisition basis, up to a presumed maximum of 5 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

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

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation 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 right to pay less or to receive more tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- 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

Company

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Gains and losses on exchange are dealt with in the profit and loss account.

Group

For consolidation purposes, the financial statements of overseas subsidiary undertakings are translated at the closing exchange rates. Exchange differences arising on these translations are taken directly to reserves. The exchange differences arising on the retranslation of opening net assets is taken directly to reserves.

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company and group operate a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable.

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The company also uses interest rate swap contracts to reduce interest rate exposures. The group does not apply hedge accounting for any of the derivative instruments.

Interest bearing loans and borrowings

All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition the debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period. Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Revenue recognition

Revenue is recognised to the extent that group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

- (i) Charter hire income: The time charter equivalent of income from the Company's vessel chartering activities is recognised on a time proportion basis whilst voyage charter income is recognized on voyage completion basis.
- (ii) Management fees: The fees earned from the management of vessels, crew and technical matters are recognised when services are rendered.

Notes to the financial statements

at 31 December 2010

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the group's continuing activity as stated in the directors' report

An analysis of turnover by geographical market is given below

	2010 £000	2009 £000
United Kingdom	55,754	65,389
Rest of Europe	128,800	54,344
Rest of world	70,829	64,148
	<u>255,383</u>	<u>183,881</u>

An analysis of turnover by geographical market for the joint venture is given below

	2010 £000	2009 £000
United Kingdom	614	5,299
Rest of Europe	36,239	43,075
Rest of world	24,569	30,785
	<u>61,422</u>	<u>79,159</u>

3. Operating profit

This is stated after charging/(crediting)

	2010 £000	2009 £000
Auditor remuneration (note 4)	262	295
Amortisation of goodwill – subsidiary	–	1,210
Depreciation of owned tangible fixed assets	13,819	9,997
Depreciation of assets held under finance leases and hire purchase contracts	4,003	3,875
Operating lease rentals – land and buildings	959	886
– plant and machinery	95,598	73,272
Foreign exchange (gains)/losses	(3,767)	201
Profit on disposal of fixed assets	(157)	(311)

Notes to the financial statements

at 31 December 2010

4. Auditor remuneration

The remuneration of the auditor is further analysed as follows

	2010	2009
	£000	£000
Audit of the financial statements	49	38
Other fees to auditor – local statutory audits for subsidiaries	82	82
– taxation services	131	175
	<u>262</u>	<u>295</u>

5. Directors' remuneration

	2010	2009
	£000	£000
Remuneration	–	–

No pension contributions were paid by the company to directors during the year

The directors were remunerated by other companies in the group where full disclosure has been made. The directors did not recharge any remuneration from the other fellow group undertakings during the year in respect of their services to the Company. The directors believe that it is impractical to apportion the amount paid by other fellow group undertakings to the directors of this Company between their services as directors of this company and their services as directors of the other fellow group undertakings.

6. Staff costs

	2010	2009
	£000	£000
Wages and salaries	17,208	17,969
Social security costs	1,227	1,306
Other pension costs (note 26)	832	798
	<u>19,267</u>	<u>20,073</u>

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

	2010	2009
	No	No
Operational	152	182
Administration	265	261
	<u>417</u>	<u>443</u>

Notes to the financial statements

at 31 December 2010

7. Interest receivable and similar income

	2010	2009
	£000	£000
Bank interest receivable	131	345
Loan interest receivable	231	750
Other interest receivable	87	19
	<u>449</u>	<u>1,114</u>
Share of joint venture interest receivable	<u>57</u>	<u>218</u>

8. Interest payable and similar charges

	2010	2009
	£000	£000
Bank interest payable	13,250	14,274
Finance lease charges net of interest rate swap	(3,665)	(2,305)
Other	90	31
	<u>9,675</u>	<u>12,000</u>
Share of joint venture's interest payable	<u>4,179</u>	<u>4,707</u>

9. Exchange loss

In 2010, an exchange loss of £30,985,306 arose on retranslation of loans and finance lease obligations. Key constituent of this exchange loss is £33m loss made on loan denominated in Japanese Yen whereas reporting currency of the subsidiaries with the loan is USD – due to JPY strengthening against USD a loss was made. There was an exchange gain of £2m which has been made on settlement of loan in EUR.

In 2009, an exchange loss of £7,099,000 arose on retranslation of loans and finance lease obligations. Key constituent of this exchange gain is £4.4m made on loan denominated in Japanese Yen whereas reporting currency of these two subsidiaries is USD – due to JPY weakening against USD a gain was made. In addition, exchange gain of £2.7m has been made on translating loan in EUR.

Notes to the financial statements

at 31 December 2010

10. Tax

(a) Tax on profit on ordinary activities

	2010	2009
	£000	£000
<i>Current tax</i>		
UK corporation tax on the profits for the year	269	379
Foreign tax	27	14
Adjustment in respect of prior periods	(388)	1 452
Total current tax (note 10(b))	<u>(92)</u>	<u>1,845</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(1,632)	115
Tax on profit on ordinary activities	<u>(1,724)</u>	<u>1,960</u>

(b) Factors affecting tax charge/credit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010	2009
	£000	£000
Loss on ordinary activities before tax	(42,500)	(1,055)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 – 28%)	<u>(11,900)</u>	<u>(295)</u>
<i>Effects of</i>		
Disallowable expenses	11,304	4,391
Decelerated/(accelerated) capital allowances	1,233	(3,204)
Adjustments in respect of prior periods	(388)	1,425
Brought forward tax losses utilised	(516)	(479)
Difference in tax rates on losses carried back	(4)	(1)
Tax losses carried forward	145	–
Excess foreign tax on overseas income	34	8
Current tax for the year (note 10(a))	<u>(92)</u>	<u>1,845</u>

Notes to the financial statements

at 31 December 2010

10. Tax (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows

	2010 £000	2009 £000
Included in debtors (note 15)	1,603	1,663
Included in creditors (note 16)	(7,675)	–
Included in provisions for liabilities and charges (note 20)	(16)	(9,789)
	<u>(6,088)</u>	<u>(8,126)</u>
	2010 £000	2009 £000
Tax losses	1,393	1,663
Decelerated capital allowances	202	–
Accelerated capital allowances	(7,690)	(9,789)
Other timing differences	7	–
	<u>(6,088)</u>	<u>(8,126)</u>
		£000
At 1 January 2010		(8,126)
Adjustment in respect of opening balance		114
Profit and loss account movement during the year		1,810
Exchange/Other adjustment		292
Adjustment in respect of prior period		(178)
At 31 December 2010		<u>(6,088)</u>

There is an unprovided deferred tax asset of £125,496 arising predominantly in respect of carried forward tax losses in "K" Line Holding (Europe) Limited. This deferred tax asset has not been recognised as there is no reasonable indication that there will be suitable future taxable profits from which these timing differences can be deducted.

A number of changes to the UK corporation tax system were announced in the 22 June 2010 and 23 March 2011 Budget Statements. The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from April 2011. A further reduction in the main rate to 26% was announced in the Budget of 23 March 2011. As this change was not substantially enacted at the balance sheet date, the deferred tax figures within these financial statements are calculated in accordance with the existing rates at the balance sheet date. Further reductions in the main rate of corporation tax are proposed to reduce the rate from 1 April 2012 to 25% with further 1% reductions per annum to 23% by 1 April 2014. In addition, with effect from 1 April 2012 a number of changes to the capital allowances regime will impact the company's future tax charge. This includes a reduction in the rate of capital allowances on the main pool from 20% to 18% and a reduction in the rate of capital allowances on integral features from 10% to 8%. The impact of these changes is not considered to be material for the financial statements.

Notes to the financial statements

at 31 December 2010

11. Loss attributable to members of parent company

The loss dealt with in the financial statements of the parent company was £21,614,487 (2009 – profit of £1,964,578)

12. Tangible fixed assets

<i>Group</i>	<i>Vessels construction</i>	<i>Vessel under</i>	<i>Leasehold property and improvements</i>	<i>Plant and machinery, fixtures and fittings</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost						
At 1 January 2010	279,662	70,047	1,130	12,109	3,353	366,301
Exchange adjustment	8,751	2,192	5	8	–	10,956
Additions	1,568	27,690	1	1,408	10	30,677
Transfers	20	–	–	(20)	–	–
Disposals	(2)	(18,616)	–	(1,309)	(1,117)	(21,044)
At 31 December 2010	289,999	81,313	1,136	12,196	2,246	386,890
Depreciation						
At 1 January 2010	31,752	–	552	8,053	2,201	42,558
Exchange adjustment	1,004	–	2	(10)	–	996
Provided during the year	15,897	–	148	1,533	243	17,821
Disposals	–	–	–	(1,211)	(853)	(2,064)
At 31 December 2010	48,653	–	702	8,365	1,591	59,311
Net book value						
At 31 December 2010	241,346	81,313	434	3,831	655	327,579
At 1 January 2010	247,910	70,047	578	4,056	1,152	323,743

The net book value of vessels and plant and machinery above includes an amount of £93,348,875 (2009 – £94,788,585) in respect of assets held under finance leases and hire purchase contracts

Notes to the financial statements

at 31 December 2010

13. Investments

Group

	2010 £000	2009 £000
Joint venture (a)	62,084	98,909
Associate	(141)	394
Unlisted investments	47	47

(a) Joint venture

	<i>Share of net</i>		
	<i>assets</i> £000	<i>Goodwill</i> £000	<i>Total</i> £000
At 1 January 2010	57,661	41,248	98,909
Acquired during the year	6,885	–	6,885
Exchange adjustments	(7,278)	(1,397)	(8,675)
Share of loss retained by joint venture	(6,143)	–	(6,143)
Amortisation of goodwill	–	(28,892)	(28,892)
At 31 December 2010	51,125	10,959	62,084

The directors have reassessed the useful economic life in relation to the joint venture's goodwill so the goodwill is fully amortised to 27 May 2011, which is when "K" Line Heavy Lift (UK) Limited sold all its interests in the SAL group of entities to "K" Line Heavy Lift (Germany) GmbH

Additional disclosures are given when the aggregate share of joint ventures exceeds the 15% thresholds under FRS 9 'Associates and Joint Ventures', as follows

	2010 £000	2009 £000
Fixed assets	162,527	148,446
Current assets	14,077	34,929
Liabilities due within one year	(28,185)	(32,604)
Liabilities due after more than one year	(98,971)	(94,489)
Turnover	61,422	79,159

Notes to the financial statements

at 31 December 2010

13. Investments (continued)

Company	Investment in			Total £000
	Joint ventures and associate £000	subsidiary undertakings £000	Unlisted investments £000	
Cost				
At 1 January 2010	23	51,443	47	51,513
Acquisition during 2010	–	18,770	–	18,770
At 31 December 2010	23	70,213	47	70,283
Amounts provided				
At 1 January 2010	–	(1,503)	–	(1,503)
Provided during the year	–	(23,667)	–	(23,667)
At 31 December 2010	–	(25,170)	–	(25,170)
Net book value at 31 December 2010	23	45,043	47	45,113
Net book value at 1 January 2010	23	49,940	47	50,010

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

Details of the investments in which the group and the company (unless indicated) holds 20% or more of the nominal values of the class of share capital are as follows

Name of company	Proportion of voting rights held	Nature of business
<i>Subsidiary undertakings</i>		
"K" Line Bulk Shipping (UK) Limited	Ordinary shares 100%	Shipping
"K" Line LNG Shipping (UK) Limited	Ordinary shares 100%	Shipping
James Kemball Limited	Ordinary shares 100%	Road haulage
"K" Line (Europe) Limited	Ordinary shares 100%	Shipping
"K" Line Heavy Lift (UK) Limited	Ordinary shares 100%	Shipping
Ralph Morton Transport Limited	Ordinary shares 100%	Road haulage
"K" Line Heavy Lift (Germany) GmbH	Ordinary shares 100%	Shipping
<i>Associate</i>		
Polar LNG Shipping (UK) Limited	Ordinary shares 42.5%	Shipping

Joint ventures

In 2010, the additional net investments in the joint venture amounted to €8,030,000

The investment in the joint ventures has been included in the company's balance sheet at its purchase cost

Notes to the financial statements

at 31 December 2010

13. Investments (continued)

SAL Schifffahrtskontor Altes Land GmbH & Co KG - ‡
SAL Schifffahrtskontor Altes Land Verwaltungsgesellschaft mbH - ‡
Luhe Engineering GmbH - ‡
SAL Transport GmbH - ‡

HLL Heavy Lift + Load Sea Lion GmbH & Co KG - ‡
HLL Heavy Lift + Load Sea Lion Verwaltung GmbH - ‡

HLL Heavy Lift + Load Sea Tiger GmbH & Co KG - ‡
HLL Heavy Lift + Load Sea Tiger Verwaltung GmbH - ‡

HLL Heavy Lift + Load Sea Hawk GmbH & Co KG - ‡
HLL Heavy Lift + Load Sea Hawk Verwaltung GmbH - ‡

HLL Heavy Lift + Load Sea Eagle GmbH & Co KG - ‡
HLL Heavy Lift + Load Sea Eagle Verwaltung GmbH - ‡

HLL HEAVY LIFT + Load "ANNETTE" GmbH & Co KG - ‡
HLL HEAVY LIFT + Load "MARIA" GmbH & Co KG - ‡
HLL Heavy Lift + Load Annette Verwaltung GmbH - ‡

HLL Heavy Lift + Load Carrier GmbH & Co KG - ‡
HLL Heavy Lift + Load Carrier Verwaltung GmbH - ‡

HLL Heavy Lift + Load Project GmbH & Co KG - ‡
HLL Heavy Lift + Load Project Verwaltung GmbH - ‡

HLL Heavy Lift + Load Trina GmbH & Co KG - ‡
Heavy Lift + Load Trina Verwaltung GmbH - ‡

HLL Heavy Lift + Load Regine GmbH & Co KG - ‡
HLL Heavy Lift + Load Regine Verwaltung GmbH - ‡

SAL Agency GmbH - ‡

HLL Heavy Lift + Load ANNEGRET Verwaltung GmbH - ‡
HLL Heavy Lift + Load GRIETJE Verwaltung GmbH - ‡
HLL Heavy Lift + Load PAULA Verwaltung GmbH - ‡
HLL Heavy Lift + Load WIEBKE Verwaltung GmbH - ‡

HLL Heavy Lift + Load ANNEGRET GmbH & Co KG - ‡
HLL Heavy Lift + Load GRIETJE GmbH & Co KG - ‡
HLL Heavy Lift + Load PAULA GmbH & Co KG - ‡
HLL Heavy Lift + Load WIEBKE GmbH & Co KG - ‡

HLL Heavy Lift + Load MARIA Verwaltung GmbH - ‡
"K" Line Heavy Lift (Germany) GmbH - ‡

Notes to the financial statements

at 31 December 2010

13. Investments (continued)

HLL Heavy Lift + Load Svenja GmbH & Co KG - ‡
HLL Heavy Lift + Load Svenja Verwaltung GmbH - ‡

HLL Heavy Lift + Load Lone GmbH & Co KG - ‡
HLL Heavy Lift + Load Lone Verwaltung GmbH - ‡

‡ All of these undertakings are registered and operate in Germany in the heavy lift sector of the shipping industry

‡ 50% of the voting rights and shares held by a subsidiary undertaking

Unlisted investments

The group and company also own 10% of the issued share capital of "K" Line Logistics (UK) Limited (formerly "K" Line Air Services (UK) Limited) which was acquired on 1 January 2004 for £6,642 and less than 1% of the issued share capital of Baltic Exchange Company Limited which was acquired on 1 January 2004 for £40,447

14. Stocks

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Stocks	4,566	2,968	-	-

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

15. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Loans receivable	49,955	73,575	156	260
Amounts owed by group undertakings	-	129	206	-
Amounts owed by related party undertakings	3,064	5,036	-	-
Trade debtors	17,246	13,270	-	-
Other debtors	5,559	2,149	-	13
Prepayments and accrued income	21,964	10,531	2	-
Deferred taxation (note 10(c))	1,603	1,663	-	-
	<u>99,391</u>	<u>106,353</u>	<u>364</u>	<u>273</u>

Notes to the financial statements

at 31 December 2010

15. Debtors (continued)

Amounts falling due after more than one year included above are

	2010	Group	2010	Company
	£000	2009	£000	2009
		£000		£000
Loans receivable	156	150	156	150

Loans receivable include £49 799m (2009 – £72 628m) loans given to related company "K" Line TRS. These loans are renewable every three months. Loan in the amount of £156k (2009 – £150k) has been given by group parent company to associate company Polar LNG Shipping (UK) Limited and its maturity date is in 2011.

16. Creditors: amounts falling due within one year

	2010	Group	2010	Company
	£000	2009	£000	2009
		£000		£000
Bank loans (note 18)	18,186	20,055	–	1,093
Overdraft	64	175	–	–
Obligations under finance leases and hire purchase contracts (note 19)	7,186	6,272	–	–
Trade creditors	9,764	6,117	–	–
Amounts owed to group undertakings	10,683	12,214	27	1
Current corporation tax	283	751	–	–
Deferred taxation (note 10(c))	7,675	–	–	–
Other taxes and social security costs	1,031	709	–	–
Other creditors	1,346	98	–	1
Accruals and deferred income	20,665	18,438	47	90
	<u>76,883</u>	<u>64,829</u>	<u>74</u>	<u>1,185</u>

The bank overdraft is secured by a mortgage over the leasehold property of a subsidiary company.

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

	2010	Group	2010	Company
	£000	2009	£000	2009
		£000		£000
Obligations under finance leases and hire purchase contracts (note 19)	106,935	95,743	–	–
Bank loans (note 18)	216,986	252,403	–	30,195
	<u>323,921</u>	<u>348,146</u>	<u>–</u>	<u>30,195</u>

Notes to the financial statements

at 31 December 2010

18. Bank loans

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts repayable				
In one year or less or on demand	18,186	20,055	–	1,093
In more than one year but not more than two years	18,186	148,681	–	30,195
In more than two years but not more than five years	181,597	85,250	–	–
In more than five years	17,203	18,472	–	–
	<u>235,172</u>	<u>272,458</u>	<u>–</u>	<u>31,288</u>
Less included in creditors amounts falling due within one year	(18,186)	(20,055)	–	(1,093)
	<u>216,986</u>	<u>252,403</u>	<u>–</u>	<u>30,195</u>

Company

K Line Holding (Europe) Limited

The loan amount has been settled during 2010

Group

"K" Line Bulk Shipping (UK) Limited

The first loan of \$9,967,777 (JPY928,000,000) is repayable by 2012 in 8 equal instalments of \$7,561,762 (JPY704,000,000) and 1 final instalment of \$2,406,015 (JPY224,000,000) The rate of interest payable on the loan is 0.5% above LIBOR The loan is secured by a fixed charge over the vessels

The second loan of \$35,512,889 (JPY3,306,250,000) is repayable by 2016 in 24 equal instalments of \$22,234,157 (JPY2,070,000,000) and 1 final instalment of \$13,278,732 (JPY1,236,250,000) The rate of interest payable on the loan is 0.17% above LIBOR The loan is secured by a fixed charge over the vessels

The third loan of \$26,141,246 (JPY2,433,750,000) is repayable by 2016 in 25 equal instalments of \$16,615,199 (JPY1,546,875,000) and 1 final instalment of \$9,526,047 (JPY886,875,000) The rate of interest payable on the loan is 0.20% above LIBOR The loan is secured by a fixed charge over the vessels

The fourth loan of \$59,186,673 (JPY5,510,000,000) is repayable by 2014 in 17 equal instalments of \$17,346,939 (JPY1,615,000,000) and 1 final instalment of \$41,836,734 (JPY3,895,000,000) The rate of interest payable on the loan is 0.70% above LIBOR The loan is secured by a fixed charge over the vessels

The fifth loan of \$75,187,970 (JPY7,000,000,000) is repayable by 2014 in 19 equal instalments of \$23,816,327 (JPY2,217,300,000) and 1 final instalment of \$51,371,643 (JPY4,782,700,000) The rate of interest payable on the loan is 0.65% above LIBOR The loan is secured by a fixed charge over the vessels

Notes to the financial statements

at 31 December 2010

18. Bank loans (continued)

"K" Line Heavy Lift (UK) Limited

The loan was drawn down from a total loan facility of €136,000,000 from syndication banks arranged by Mizuho Corporate Bank Ltd. The first repayment on this facility was made on 15 July 2009 and will be followed by 3 equal annual payments of the same amount and a final payment of €104m. The rate of interest payable on the loan is 0.23% above Euro base rate. The maturity date for all outstanding loans against the facility is 15 July 2013 and the loan is secured by a guarantee from the ultimate parent undertaking.

19. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts

<i>Group</i>	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>
Amounts payable		
Within one year	8,993	8,017
In two to five years	34,878	29,715
In more than five years	89,815	82,945
	<u>133,686</u>	<u>120,677</u>
Less: finance charges allocated to future periods	(19,565)	(18,662)
	<u>114,121</u>	<u>102,015</u>
Analysis of present value of finance lease and hire purchase liabilities		
	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>
In one year or less or on demand	7,186	6,272
In more than one year but not more than five years	27,161	22,735
In more than five years	79,774	73,008
	<u>114,121</u>	<u>102,015</u>

The rate of interest payable on the finance lease is 0.275% above LIBOR. The finance lease is secured by a fixed charge over the assets concerned.

Notes to the financial statements

at 31 December 2010

19. Obligations under leases and hire purchase contracts (continued)

Annual commitments under non-cancellable operating leases are as follows

<i>Group</i>	<i>2010</i>		<i>2009</i>	
	<i>Land and buildings</i>	<i>Plant and machinery (Other)</i>	<i>Land and buildings</i>	<i>Plant and machinery (Other)</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire				
Within one year	–	10,543	–	4,439
Between two and five years	1,072	41,008	1,072	31,965
Over five years	381	18,173	381	14,157
	<u>1,453</u>	<u>69,724</u>	<u>1,453</u>	<u>50,561</u>

During the year the group held operating leases for 18 vessels (2009 – 13 vessels) for the purposes of trading in its bulk division

20. Provisions for liabilities

The movement in the deferred taxation provision during the year was

	<i>£000</i>
At 1 January 2010	9,789
Profit and loss account movement arising during the year	(9,773)
At 31 December 2010 (note 10(c))	<u>16</u>

21. Issued share capital

Allotted, called up and fully paid

	<i>2010</i>		<i>2009</i>	
	<i>No</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
Ordinary shares of £1 each	69,297,563	69,298	19,981,682	19,982

During the year, 49,315,881 ordinary shares of £1 each were issued at par for cash for a consideration of £49.3m

Notes to the financial statements

at 31 December 2010

22. Reconciliation of shareholder's funds and movements on reserves

<i>Group</i>	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholder's funds £000</i>
At 1 January 2009	19,982	141,410	161,392
Retained loss for the year	–	(3,015)	(3,015)
Exchange difference on retranslation	–	(23,101)	(23,101)
	<hr/>	<hr/>	<hr/>
At 1 January 2010	19,982	115,294	135,276
Shares issued	49,316	–	49,316
Retained loss for the year	–	(40,775)	(40,775)
Exchange difference on retranslation	–	(3,325)	(3,325)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	69,298	71,194	140,492
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Company</i>	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholder's funds £000</i>
At 1 January 2009	19,982	(2,965)	17,017
Retained profit for the year	–	1,964	1,964
	<hr/>	<hr/>	<hr/>
At 1 January 2010	19,982	(1,001)	18,981
Shares issued	49,316	–	49,316
Retained loss for the year	–	(21,614)	(21,614)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	69,298	(22,615)	46,683
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

23. Derivatives

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group also uses interest rate swap contracts to reduce interest rate exposures. During the year, a forward freight agreement was also used to minimise the fluctuations in market freight rates. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2010 £000</i>	<i>2009 £000</i>	<i>2010 £000</i>	<i>2009 £000</i>
Interest rate swaps	3,942	3,783	–	–
Forward foreign currency contracts	5,811	643	–	–
Forward freight agreements	–	1,583	–	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

at 31 December 2010

24. Events since the balance sheet date

"K" Line Heavy Lift (UK) Limited

Investments:

Additional investments made after the end of the financial year amount to €81,000 in "SAL Agency GmbH" on 16 March 2011 and €2 28m in HLL Lone GmbH & Co KG on 10 March 2011

Transfer of shareholding:

On 13 May 2011, "K" Line Heavy Lift (UK) Limited sold all its shares held in "K" Line Heavy Lift (Germany) GmbH to Kawasaki Kisen Kaisha Ltd for an agreed price of €468,550

On 27 May 2011, "K" Line Heavy Lift (UK) Limited sold all its interests in the SAL group of entities to "K" Line Heavy Lift (Germany) GmbH for an agreed price of €105,807,450 together with the inter company balance receivable of €4,477,500. On the same date, a loan for an amount of €110,307,450 was granted to "K" Line Heavy Lift (Germany) GmbH with a maturity date of 15 July 2011 and interest of 2% pa

As a result of the above activities, an impairment of investment amounting to €69,179,540 was considered appropriate by the management of the company, this has been accounted for as an Exceptional item in these financial statements

On 24 June 2011, "K" Line Heavy Lift (UK) Limited issued 14,000,000 ordinary shares of €1 each to "K" Line Holding (Europe) Ltd, the full proceeds received were used to grant a loan to "K" Line Heavy Lift (Germany) GmbH with a maturity date of 15 July 2011 and interest of 2% pa

On 15 July 2011, "K" Line Heavy Lift (UK) Limited decided to replace the previous 2 loans receivable from "K" Line Heavy Lift (Germany) GmbH with a new loan for €112m with the balance having been repaid in July 2011. The terms of the new loan are maturity date of 15 July 2013 and interest of LIBOR+0.5 payable every 6 months

Loans:

On 17 January 2011, "K" Line Heavy Lift (UK) Limited borrowed €1m from "K" Line Holding (Europe) Ltd. A further loan of €3m was secured on 10 March 2011. Both loans have a maturity date of 31 August 2011 with an interest rate of LIBOR+margin. On 15 July 2011, both loans amounting to €4m were fully repaid

"K" Line Holding (Europe) Limited.

Additional share capital issued:

On 23 June 2011, "K" Line Holding (Europe) Limited issued new ordinary shares of £1 each for £12.4m. On the same day, the additional funds received were used to increase the investment in "K" Line Heavy Lift (UK) Ltd

Notes to the financial statements

at 31 December 2010

Events since the balance sheet date (continued)

Ralph Morton Transport Limited

Transfer of business:

On 20 August 2011, Ralph Morton Transport Limited transferred all its employees and physical assets to its sister company James Kemball Limited (JKL). Going forward, the K Line UK group's road haulage business would be run entirely by JKL in one enlarged operation.

25. Capital commitments

The group had capital commitments contracted but not provided for in the financial statements of £376,514,247 (2009 – £206,811,146)

26. Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group.

27. Related party transactions

The company has taken advantage of the exemption available in FRS 8 from disclosing transactions with related parties, 100% of whose voting rights are controlled within the Kawasaki Kisen Kaisha Limited group.

	<i>Income from related party</i>	<i>Purchases from related party</i>	<i>Amounts owed from related party</i>	<i>Amounts owed to related party</i>
	£	£	£	£
During the year, Polar LNG Shipping (UK) Limited entered into transactions, in the ordinary course of business, with the following subsidiary undertakings and affiliates				
"K" Line (Europe) Limited				
2010	–	–	–	11,709
2009	–	–	–	40,095
"K" Line LNG Shipping (UK) Limited				
2010	–	7,150,012	–	1,257,189
2009	–	7,243,819	376,377	–
"K" Line Holding (Europe) Limited				
2010	–	1,708	–	156,100
2009	–	2,715	–	149,708
Northern LNG Transport Co I Limited*				
2010	–	9,909,291	–	–
2009	–	10,214,228	–	–

Notes to the financial statements

at 31 December 2010

27. Related party transactions (continued)

	<i>Income from related party</i>	<i>Purchases from related party</i>	<i>Amounts owed from related party</i>	<i>Amounts owed to related party</i>
	£	£	£	£
Northern LNG Transport Co II Limited*				
2010	–	10,680,236	–	–
2009	–	10,122,976	–	–
StatoilHydroASA**				
2010	26,644,874	1,285	–	117,534
2009	27,283,343	2,044	44,802	116,248
Mitsui & Co Limited***				
2010	–	582	–	53,258
2009	–	927	–	52,675
Ino Kaun Kaisha Limited****				
2010	–	442	–	40,402
2009	–	702	–	39,960
J Watson*****				
2010	–	16,320	–	–
2009	–	15,283	–	–

* Polar LNG Shipping (UK) Limited charters each one of its vessels from Northern LNG Transport Co I Limited and Northern LNG Transport Co II Limited. Both of these companies are affiliates of Kawasaki Kisen Kaisha Ltd (the ultimate parent company of "K" Line Holding (Europe) Ltd)

**StatoilHydro ASA owns 32% of the ordinary shares in the company

***Mitsui & Co, Limited owns 14.5% of the ordinary shares in the company

**** Ino Kaun Kaisha, Limited owns 11% of the ordinary shares in the company

***** Mr J Watson is a partner in a firm of solicitors that provides legal services to the company on an arm's length basis

During the year "K" Line Europe Limited had entered into transactions, in the ordinary course of business with the following related parties

SAL Schiffahrtskontor Altes Land GmbH & Co KG				
2010	20,825	–	39,685	–
2009	22,129	–	56,654	–

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27. Related party transactions (continued)

During the year, "K" Line Heavy Lift (UK) Limited had entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding as at 31 December, are as follows:

Related party transactions

	<i>Shares of profit/(loss) from related party</i>	<i>Dividends received from related party</i>	<i>Amounts owed from related party</i>	<i>Amounts owed to related party</i>
	£	£	£	£
SAL GmbH & Co KG				
2010	2,001	–	167,038	–
2009	2,732	–	171,046	–
HLL Sea Lion GmbH & Co KG				
2010	(115,296)	–	342,914	–
2009	474,389	–	474,894	–
HLL Sea Tiger GmbH & Co KG				
2010	(389,746)	–	–	277,022
2009	118,078	–	116,829	–
HLL Sea Hawk GmbH & Co KG				
2010	31,101	–	411,311	656,545
2009	(716,934)	–	–	712,684
HLL Sea Eagle GmbH & Co KG				
2010	(526,406)	–	428,913	–
2009	1,092,513	–	563,817	–
HLL Annette GmbH & Co KG				
2010	447,635	–	2,098,045	–
2009	1,623,068	–	1,550,647	–
HLL Maria GmbH & Co KG				
2010	(594,784)	–	1,204,727	–
2009	1,771,834	–	1,705,178	–
HLL Grietje GmbH & Co KG				
2010	(532,152)	–	488,432	226,740
2009	321,604	–	321,715	–
HLL Annegret GmbH & Co KG				
2010	355,144	–	607,096	–
2009	1,149,966	–	86,564	–
HLL Paula GmbH & Co KG				
2010	(544,702)	–	488,432	862,464
2009	201,476	–	–	329,334

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27. Related party transactions (continued)

Related party transactions

	<i>Shares of profit/(loss) from related party £</i>	<i>Dividends received from related party £</i>	<i>Amounts owed from related party £</i>	<i>Amounts owed to related party £</i>
HLL Wiebke GmbH & Co KG				
2010	(175,621)	–	569,136	–
2009	1,064,976	–	265,659	–
HLL Carrier GmbH & Co KG				
2010	(1,741,835)	–	385,604	2,381,639
2009	108,670	–	–	663,101
HLL Project GmbH & Co KG				
2010	(641,525)	–	1,484,632	–
2009	2,841,394	–	1,803,931	–
HLL Trina GmbH & Co KG				
2010	(853,856)	–	132,987	–
2009	1,549,070	–	1,022,775	–
HLL Regine GmbH & Co KG				
2010	(711,659)	–	–	781,704
2009	(56,970)	–	–	72,595
HLL Atlas GmbH & Co KG				
2010	7,449	–	–	–
2009	(1,547)	–	–	7,720
HLL Titan GmbH & Co KG				
2010	(15,308)	–	–	–
2009	(1,612)	–	15,865	–
HLL Svenja GmbH & Co KG				
2010	(418,063)	–	–	410,210
2009	8,139	–	8,139	–
HLL Lone GmbH & Co KG				
2010	(35,296)	–	–	27,511
2009	8,068	–	8,068	–
2010 Total	<u>(6,777,917)</u>	<u>–</u>	<u>8,809,267</u>	<u>5,623,835</u>
2009 Total	<u>11,558,915</u>	<u>–</u>	<u>8,115,126</u>	<u>1,785,434</u>

"K" Line Heavy Lift (UK) Limited owns between 49.75% and 50% of the interest in each of the entities listed above

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