

PANDORO LIMITED
DIRECTORS' REPORT AND ACCOUNTS
YEAR ENDED 31ST DECEMBER, 1987

444786.

Peat Marwick McLintock
Unicentre
Lords Walk
PRESTON
PR1 1LQ



PANDORO LIMITEDDIRECTORS' REPORT

The directors present their annual report and the audited accounts for the year ended 31st December, 1987.

PRINCIPAL ACTIVITIES

The principal activities of the company are the operation of a roll-on, roll-off shipping service between Great Britain and Ireland and other transport services.

BUSINESS REVIEW

The directors are pleased with the progress of the business during the year and consider the state of affairs at the end of the year and the future prospects of the company to be satisfactory.

PROPOSED DIVIDEND

The directors do not propose to recommend the payment of a dividend for the year.

PROPOSED TRANSFERS TO RESERVES

	<u>1987</u> <u>£000</u>
Turnover	41,205
Profit on ordinary activities before taxation	51
Taxation	(1,388)
Loss for the financial year	(1,337)
Retained profit brought forward	3,703
Retained profit carried forward	<u>2,366</u>

SIGNIFICANT CHANGES IN FIXED ASSETS

The movement in tangible fixed assets is set out in note 8 of the accounts.

PANDORO LIMITEDDIRECTORS' REPORT
(Continued)DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company who served during the year and their interests (all of which are beneficial) in the share capital of the company's ultimate holding company are set out below. None of the directors had any interests in the share capital of the company.

The Peninsular and Oriental Steam Navigation Company
Deferred ordinary shares of £1 each
At 31st December, 1987 At 31st December, 1986
(or later date of appointment)

G.H. Ruff (Chairman)	2,609	2,284
A.J.B. Crean (Managing Director)	5,524	2,173
G.B. Whitehead	5,724	8,327
J.H. Kearsley	393	177
M.N. Taylor	312	138
P. Donnelly	265	265

Mr. P. Donnelly was appointed a director on 1st July 1987. In accordance with the company's Articles of Association, he will retire at the Annual General Meeting and being eligible will offer himself for re-election.

In accordance with the company's Articles of Association, Mr. M.N. Taylor retires by rotation and, being eligible, will offer himself for re-election.

EMPLOYEES

Contacts are maintained with Disablement Resettlement Officers with a view to ensuring full and fair consideration for any disabled applicant for employment. The company endeavours to retain any existing employee who may become disabled, providing specialised training where appropriate. If modified or additional facilities are needed for a disabled employee, all reasonable steps are taken to provide them.

The company recognises the need to keep employees informed and encourage identification with their employer. The company publishes a newsletter to maintain regular contact with employees at all locations. Induction training courses allow new employees to become familiar with the structure of the company and its procedures very shortly after taking up employment. Regular meetings are held with employees or their representatives and appropriate information on company targets and performance is made available.

Teach-ins with display material covering company history and performance are held annually.

PANDORO LIMITED

DIRECTORS' REPORT
(Continued)

AUDITORS

In accordance with Section 384 of the Companies Act 1935, a resolution for the re-appointment of Peat Marwick McLintock as auditors of the company will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

C.G. SMITH

SECRETARY

Station House
Altrincham
Cheshire
WA14 1ER

21st March, 1988

REPORT OF THE AUDITORS TO THE MEMBERS OF
PANDORO LIMITED

We have audited the accounts on pages 5 to 14 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31st December, 1987 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.

The accounts do not specify the manner in which the operations of the company have been financed, or in which its financial resources have been used during the year, as required by Statement of Standard Accounting Practice No. 10.

Peat Marwick M. Hutcheson

CHARTERED ACCOUNTANTS

Preston

21st March, 1988

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PANDORO LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1987

	<u>Note</u>	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
TURNOVER	2	41,205	40,026
Cost of sales		<u>(36,370)</u>	<u>(34,566)</u>
GROSS PROFIT		4,835	5,460
Administrative expenses		<u>(4,211)</u>	<u>(2,959)</u>
OPERATING PROFIT		624	1,501
Interest payable and similar charges	6	<u>(573)</u>	<u>(502)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	51	999
Tax on profit on ordinary activities	7	<u>(1,388)</u>	<u>(94)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(1,337)</u>	<u>905</u>
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(1,337)	905
Retained profit brought forward		<u>3,703</u>	<u>2,798</u>
RETAINED PROFIT CARRIED FORWARD		<u><u>2,366</u></u>	<u><u>3,703</u></u>

The notes on pages 7 to 14 form part of these accounts

PANDORO LIMITEDBALANCE SHEET AT 31ST DECEMBER, 1987

	<u>Notes</u>	<u>1987</u> £000 £000	<u>1986</u> £000 £000
FIXED ASSETS			
Tangible assets	8	9,602	9,732
CURRENT ASSETS			
Stocks	9	298	246
Debtors	10	8,914	6,790
Cash in hand		<u>195</u>	<u>29</u>
		9,407	7,065
CREDITORS: Amounts falling due within one year	11	(10,265)	(8,495)
NET CURRENT LIABILITIES		<u>(858)</u>	<u>(1,430)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,744	8,302
CREDITORS: Amounts falling due after more than one year	12	(5,063)	(4,599)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,315)	-
		<u>2,366</u>	<u>3,703</u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Profit and loss account		<u>2,366</u>	<u>3,703</u>
		<u>2,366</u>	<u>3,703</u>

These accounts were approved by the
board of directors on 21st March, 1988

A.J.B. Crean)
) Directors
M.N. Taylor)

The notes on pages 7 to 14 form part of these accounts.

PANDORO LIMITEDNOTES TO THE ACCOUNTS1. ACCOUNTING POLICIES

The principal accounting policies that have been adopted in the preparation of these accounts are given below:

a) Basis of Preparation of Accounts

The accounts are prepared on the historical cost basis modified by the inclusion of properties at their latest valuations.

b) Properties

Properties are included in the accounts at their latest valuations plus subsequent additions at cost. The properties are valued triennially by the group chief surveyor.

No charge for amortisation is made in respect of freehold or leasehold property with an unexpired lease of greater than 21 years. The book value of leasehold property with less than 21 years to the termination of the lease is written off over the remainder of the period on a straight line basis.

c) Leased Assets

Where assets are acquired by leasing arrangements which give rights approximating to ownership ("finance leases") the amount representing the outright purchase price of such assets (less government grants) is included in tangible fixed assets. Depreciation is provided at rates designed to write off this net cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) or the period of the leases.

The capital element of future rentals is treated as a liability and the interest element is charged to profit and loss account over the period of the leases in proportion to the balances outstanding.

Expenditure on leases other than finance leases ("operating leases") is charged to profit and loss account on a basis representative of the benefit derived from the asset, normally corresponding to the basis on which rentals accrue.

d) Other Assets

These assets are stated at cost less accumulated depreciation.

Depreciation on other assets is calculated on a straight line basis over the expected useful life, up to 20 years, of each asset concerned.

PANDORO LIMITED

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NOTES TO THE ACCOUNTS (Continued)

1. ACCOUNTING POLICIES (Continued)

e) Stocks and Work in Progress

Stocks are valued at the lower of cost and net realisable value using the first in, first out method.

f) Foreign Currencies

Transactions denominated in foreign currencies are translated into Sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in foreign currencies are translated into Sterling at the exchange rates ruling on the balance sheet date.

g) Deferred Taxation

Deferred taxation is provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that the reduction in the tax charge cannot be expected with reasonable probability to continue for the foreseeable future. No provision is made for deferred taxation which might arise if properties were to be realised at their book values at the balance sheet date or if profits of overseas subsidiaries were to be distributed.

2. TURNOVER

Turnover represents the amounts invoiced by the company in respect of services provided during the year, excluding value added tax.

Turnover in respect of the provision of transport services is analysed by geographical area below:

United Kingdom
Continental Europe

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
	21,681	22,061
	<u>19,524</u>	<u>17,965</u>
	<u>41,205</u>	<u>40,026</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following:

Depreciation and other amounts written off
tangible fixed assets
Auditors' remuneration and expenses
Directors' emoluments (see note 4)
Finance charges payable in respect of
finance leases and hire purchase contracts
Hire of plant and machinery - rentals payable
under operating leases
Hire of other assets

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
	1,967	1,820
	11	9
	82	65
	203	213
	432	339
	<u>3,655</u>	<u>3,998</u>

PANDORO LIMITEDNOTES TO THE ACCOUNTS
(Continued)4. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

The chairman, managing director and Mr. G.B. Whitehead are remunerated by POETS Limited, another company in the P&O group, without specific recharge and, accordingly, none of their emoluments are included in the amounts disclosed below.

Excluding pension contributions, the emoluments of the highest paid director were £36,730 (1986 : £34,006); the emoluments of all directors were within the following ranges:

	<u>1987</u>	<u>1986</u>
£Nil - £ 5,000	3	3
£10,001 - £15,000	1	-
£25,001 - £30,000	-	1
£30,001 - £35,000	1	1
£35,001 - £40,000	1	-

No employee received in excess of £30,000 in either year.

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	<u>1987</u>	<u>1986</u>
Administration	243	238
Other	<u>342</u>	<u>336</u>
	<u>585</u>	<u>574</u>

The aggregate payroll costs of these persons were as follows:

	<u>1987</u>	<u>1986</u>
	<u>£000</u>	<u>£000</u>
Wages and salaries	7,806	6,984
Social security costs	571	516
Other pension costs	<u>142</u>	<u>279</u>
	<u>8,519</u>	<u>7,779</u>

PANDORO LIMITEDNOTES TO THE ACCOUNTS
(Continued)6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
On bank overdraft	30	20
On inter-group loans repayable within five years, not by instalments	339	269
On leased assets	<u>204</u>	<u>213</u>
	<u>573</u>	<u>502</u>

7. TAXATION

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Taxation charge on (loss)/profit on ordinary activities is as follows:-		
UK Corporation tax at 35% (1986: 36.25%)	73	489
Deferred taxation	(33)	-
Prior year deferred taxation	1,348	-
Surplus advance corporation tax previously surrendered	<u>-</u>	<u>(395)</u>
	<u>1,388</u>	<u>94</u>

The amount of unprovided deferred tax in
respect of the year is as follows:

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Accelerated capital allowances	-	(97)
Other timing differences	<u>-</u>	<u>87</u>
	<u>-</u>	<u>(10)</u>

PANDORO LIMITED

NOTES TO THE ACCOUNTS
(Continued)

8. TANGIBLE FIXED ASSETS

	Properties			Fixtures, Fittings, Tools and Equipment	Owne Plant and Machinery	Lease Plant and Machinery	
	Freehold	Short Leasehold	Total				Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation:							
At 1st January, 1987	1,415	1,020	2,435	733	6,089	10,710	19,967
Additions	195	8	203	57	1,667	-	1,927
Disposals	-	-	-	(111)	(186)	(505)	(802)
At 31st December, 1987	1,610	1,028	2,638	679	7,570	10,205	21,092
Depreciation and Amortisation:							
At 1st January, 1987	-	258	258	432	3,927	5,618	10,235
Charged in year	-	27	27	83	641	1,216	1,967
Disposals	-	-	-	(110)	(167)	(435)	(712)
At 31st December, 1987	-	285	285	405	4,401	6,399	11,490
Net Book Value:							
At 31st December, 1987	1,610	743	2,353	274	3,169	3,806	9,602
At 31st December, 1986	1,415	762	2,177	301	2,162	5,092	9,732

The analysis of properties included above at 31st December, 1987 is as follows:

	Valuation £000	Cost £000	Total £000
Freehold	1,415	195	1,610
Short leasehold	-	1,028	1,028
	1,415	1,223	2,638

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PANDORO LIMITED

NOTES TO THE ACCOUNTS
(Continued)

8. TANGIBLE FIXED ASSETS (Continued)

The valuation of freehold properties was made at 31st December, 1986 on an open market value basis in accordance with the guidance notes on the valuation of assets published by the RICS by the holding company's chief surveyor, R.A. Knight, FRICS.

The historical cost of freehold properties is £1,823,000 (1986 : £1,628,000).

9. STOCKS

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Raw materials and consumables	298	246

10. DEBTORS

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Trade debtors	7,263	6,164
Amounts owed by group companies:		
Holding and fellow subsidiary companies	79	15
Other debtors	155	-
Prepayments and accrued income	<u>1,417</u>	<u>611</u>
	<u>8,914</u>	<u>6,790</u>

11. CREDITORS: Amounts falling due within one year

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Bank loans and overdrafts	-	117
Obligations under finance leases and hire purchase contracts (see note 13)	1,072	1,101
Trade creditors	3,464	3,485
Amounts owed to group companies:		
Holding and fellow subsidiary companies	1,343	930
Other creditors including taxation and social security:		
Corporation tax	73	94
Other taxes	794	377
Social security	<u>286</u>	<u>81</u>
Taxation and social security	1,153	552
Accruals and deferred income	<u>3,233</u>	<u>2,310</u>
	<u>10,265</u>	<u>8,495</u>

12. CREDITORS: Amounts falling due after more than one year

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Obligations under finance leases and hire purchase contracts (see note 13)	1,179	2,250
Amounts owed to group companies:		
Holding and fellow subsidiary companies	<u>3,884</u>	<u>2,349</u>
	<u>5,063</u>	<u>4,599</u>

PANDORO LIMITEDNOTES TO THE ACCOUNTS
(Continued)13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Within one year	1,072	1,101
Over one year:		
In the second to fifth years inclusive	<u>1,179</u>	<u>2,250</u>
	<u>2,251</u>	<u>3,351</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

Due to the increased profitability of the P&O Group the existence of Group Relief is no longer sufficient to offset any potential liability for Deferred Taxation. The directors therefore do not consider that the reduction in the tax charge resulting from timing differences can be expected with reasonable probability to continue for the foreseeable future.

The amounts provided and unprovided for deferred taxation are set out below:

	<u>Unprovided</u> <u>£000</u>	<u>1987</u> <u>Provided</u> <u>£000</u>	<u>Unprovided</u> <u>£000</u>	<u>1986</u> <u>Provided</u> <u>£000</u>
Difference between accumulated depreciation and amortisation and capital allowances	-	690	656	-
Leased assets	-	538	609	-
Other items	-	87	87	-
	-	<u>1,315</u>	<u>1,352</u>	-
Less: ACT offset	-	-	(405)	-
	-	<u>1,315</u>	<u>947</u>	-

15. SHARE CAPITAL

	<u>1987</u> <u>£</u>	<u>1986</u> <u>£</u>
Authorised, allotted, called up and fully paid:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

PANDORO LIMITEDNOTES TO THE ACCOUNTS
(Continued)16. COMMITMENTS

- a) Capital commitments at 31st December, 1987, for which no provision has been made in these accounts, were as follows:

	<u>1987</u> <u>£000</u>	<u>1986</u> <u>£000</u>
Contracted	2,729	71
Authorised but not contracted	-	-
	<u>2,729</u>	<u>71</u>

- b) At 31st December, 1987, the company had annual commitments under non-cancellable operating leases as follows:

	<u>1987</u>		<u>1986</u>	
	<u>Land and</u> <u>Buildings</u> <u>£000</u>	<u>Other</u> <u>£000</u>	<u>Land and</u> <u>Buildings</u> <u>£000</u>	<u>Other</u> <u>£000</u>
Operating leases which expire:				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	-	-
Over five years	<u>157</u>	<u>134</u>	<u>137</u>	<u>132</u>
	<u>157</u>	<u>134</u>	<u>137</u>	<u>132</u>

Leases of land and buildings are subject to rent reviews at intervals of seven years.

17. CONTINGENCIES

The company is contingently liable to its bankers in respect of guarantees and indemnities to third parties amounting to £1,677,500 (1986 : £1,027,500).

18. ULTIMATE HOLDING COMPANY

The ultimate holding company is The Peninsular and Oriental Steam Navigation Company which is incorporated in Great Britain.