

Pandoro Limited

Directors' report and financial statements

31 December 1997

Registered number 444786 (England)



Pandoro Limited

Directors' report and financial statements

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Pandoro Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activity of the company is the operation of a roll-on, roll-off shipping service between Great Britain and Ireland, Ireland and Continental Europe and related transport.

Business review

The company had a difficult year principally due to further schedule disruption and also increased price competition. As part of the wider divisional reorganisation within the P&O group, the company's freight ferry and unit load operations were separated during the second half of the financial year to facilitate improved focus on the particular customer requirements in each sector.

Proposed dividend

The directors do not propose to recommend the payment of a final dividend. An interim dividend of £3,213,000 (1996: £5,300,000) was paid during the year.

Proposed transfer to reserves

	1997 £000	1996 £000
Turnover	112,420	111,517
(Loss)/profit on ordinary activities before taxation	(1,895)	3,597
Taxation	927	(1,234)
(Loss)/profit on ordinary activities after taxation	(968)	2,363
Dividends	(3,213)	(5,300)
Retained loss for the year transferred to reserves	(4,181)	(2,937)

Post balance sheet event

During 1998 the company has sold its entire interest in its associated undertaking, Tank Trans Limited, to another group company at its book value.

Pandoro Limited

Directors' report

Directors and directors' interests

The directors who held office at the end the financial year had the following interests (all of which are beneficial) in the share capital of the company's ultimate parent company. None of the directors had any interests in the share capital of the company.

	Deferred ordinary shares of £1 each		Executive options		SAYE options	
	1997	1996	Granted	Exercised	Granted	Exercised
JH Kearsley	6,408	5,237	-	-	1,132	1,550
P Donnelly	1,361	608	-	-	998	1,218
MP Forrest	218	-	-	-	266	762
JN Galvin	-	-	-	-	-	-
JJ Barr	1,357	1,158	-	1,274	-	-
CJ Rice	1,474	1,349	-	-	-	-

The options are generally exercisable not later than December 2004 at prices between 305p and 717p.

Since the year end, J Galvin resigned as director on 27 March 1998.

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.

Creditor payment policy

The company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month. This policy is understood by the purchasing and finance departments. The company has procedures for dealing with complaints and disputes. The company had 48 days purchases outstanding at 31 December 1997.

Pandoro Limited

Directors' report

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company, is to be proposed at the forthcoming Annual General Meeting.

By order of the board



P Donnelly
Director

Peninsular House
11-13 Lower Brook Street
Ipswich
IP4 1AQ

27 October 1998

Pandoro Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the company and detect fraud and other irregularities.



Edward VII Quay
Navigation Way
Ashton-on-Ribble
Preston
Lancashire PR2 2YF

Auditors' report to the members of Pandoro Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

27 October 1998

Pandoro Limited

Profit and loss account

for the year ended 31 December 1997

	Note	1997 £000	1996 £000
Turnover - continuing operations	2	112,420	111,517
Cost of sales		(97,780)	(92,815)
Gross profit - continuing operations		14,640	18,702
Administrative expenses		(13,017)	(12,456)
Operating profit	3-5	1,623	6,246
Interest payable and similar charges	6	(3,518)	(2,649)
(Loss)/profit on ordinary activities before taxation		(1,895)	3,597
Tax on (loss)/profit on ordinary activities	7	927	(1,234)
(Loss)/profit on ordinary activities after taxation for the financial year		(968)	2,363
Dividends	8	(3,213)	(5,300)
Retained loss for the financial year		(4,181)	(2,937)

A statement of movements on reserves is given in note 17.

Statement of total recognised gains and losses

for the year ended 31 December 1997

	1997 £000	1996 £000
(Loss)/profit for the financial year	(968)	2,363
Unrealised deficit on revaluation of properties	(154)	-
Total gains and losses recognised since last annual report	(1,122)	2,363

Pandoro Limited

Note of historical cost profits and losses

for the year ended 31 December 1997

	1997 £000	1996 £000
Reported (loss)/profit on ordinary activities before taxation	(1,895)	3,597
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	930	930
Realisation of property revaluation gains of previous years	-	40
Historical cost on ordinary activities before taxation	<u>(965)</u>	<u>4,567</u>
Historical cost loss for the year retained after taxation and dividends	<u>(3,251)</u>	<u>(1,967)</u>

Pandoro Limited

Balance sheet

at 31 December 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	9	50,925	52,777
Investments	10	1,259	1,259
		<u>52,184</u>	<u>54,036</u>
Current assets			
Stocks	11	2,090	2,338
Debtors	12	29,650	29,157
Cash at bank and in hand		92	121
		<u>31,832</u>	<u>31,616</u>
Creditors: amounts falling due within one year	13	<u>(39,429)</u>	<u>(33,379)</u>
Net current liabilities		(7,597)	(1,763)
Total assets less current liabilities		<u>44,587</u>	<u>52,273</u>
Creditors: amounts falling due after more than one year	14	(25,799)	(29,073)
Provisions for liabilities and charges	15	(7,952)	(8,029)
Net assets		<u>10,836</u>	<u>15,171</u>
Capital and reserves			
Called up share capital	16	3,000	3,000
Revaluation reserve	17	6,575	7,659
Profit and loss account	17	1,261	4,512
Equity shareholder's funds	17	<u>10,836</u>	<u>15,171</u>

These financial statements were approved by the board of directors on

27 October 1998

and were signed on its behalf by:


JH Kearsley
Director

Pandoro Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently, except as noted below, in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of certain fixed assets.

Exemption from preparation of cash flow statement and group accounts

The results of the company are included in the consolidated accounts of The Peninsular and Oriental Steam Navigation Company, a company incorporated in Great Britain and registered in England and Wales. Accordingly, in accordance with Financial Reporting Standard 1 (revised) a cash flow statement for the company has not been prepared.

The company is exempt under section 228 of the Companies Act 1985 from the obligation to prepare group accounts and deliver them to the Registrar of Companies.

The financial statements present information about the undertaking as an individual company and not about its group.

Fixed assets and depreciation

Properties are included in fixed assets at their latest valuations plus subsequent additions at cost, and surpluses and deficits are included in the revaluation reserve. Properties are revalued triennially by the Chief Surveyor of The Peninsular and Oriental Steam Navigation company, the company's ultimate parent company. Profits and losses on sale of these properties are calculated by reference to their net carrying amounts.

In accordance with the ultimate parent company's policy, depreciation or amortisation is not provided in respect of freehold or long leasehold properties. This treatment may be a departure from the Companies Act 1985 concerning the depreciation of fixed assets in respect of certain of these properties. However such properties are not held for consumption but for investment and the directors consider systematic annual depreciation would be inappropriate and that this policy is necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

In the case of freehold and long leasehold properties annual depreciation or amortisation (using residual values estimated at the time the properties were acquired or at the time of a later revaluation) would not be material in these accounts and hence no depreciation or amortisation is provided.

The book value of leasehold properties with less than twenty one years to the termination of the lease is written off over the remainder of the lease period on a straight line basis.

Provision for any permanent diminution in value of properties held as fixed assets is made in the profit and loss account.

Pandoro Limited

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation (continued)

Depreciation is provided on all other assets to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives up to 30 years.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using the year end exchange rates. The exchange differences are taken to the profit and loss account.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

Pension costs

The company participates in the P&O Pension Scheme ("the Scheme") operated by the Group of which it is a member. This is the main scheme for the provision of pensions and related benefits to the Group's employees in the UK. Membership of the Scheme is voluntary. Benefits are based on final salary, and the amounts of pensions in payment and deferred pensions are reviewed every year. The date from which a pension is payable is normally a member's 63rd birthday for both male and female members. Members contribute to the Scheme, but the balance of the cost of providing the benefits to members is borne by the participating employers who pay contributions at rates determined by independent actuaries in the light of regular valuations. The assets of the Scheme, which are completely separate from the Group's finances, are managed on behalf of the trustee by independent fund managers under arrangements which include provisions for custody.

The company also participates in the P&O Irish Pension Scheme which is operated by the Group to comply with local employment conditions and practices.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided on items dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that the reduction or increase in the tax charge cannot be expected with reasonable probability to continue for the foreseeable future.

Related party transactions

The company's ultimate controlling party is considered by the directors to be The Peninsular and Oriental Steam Navigation Company. The directors have taken advantage of the exemption in Financial Reporting Standard 8 paragraph 3(c) and have not disclosed related party transactions with parent, fellow subsidiary and subsidiary undertakings.

Turnover

Turnover represents the amounts (excluding VAT) derived from the provision of services to third parties.

Pandoro Limited

Notes (continued)

2 Analysis of turnover

	1997 £000	1996 £000
<i>By destination</i>		
United Kingdom and Ireland	106,087	108,635
Continental Europe	6,333	2,882
	<u>112,420</u>	<u>111,517</u>

3 Profit on ordinary activities before taxation

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration and expenses:		
Audit	24	23
Non audit work	10	5
Non audit work - other offices	25	-
Depreciation and other amounts written off owned tangible fixed assets	5,692	5,163
Hire of plant and machinery - rentals payable under operating leases	1,196	1,117
Hire of ships - rentals payable under operating leases	2,041	2,041
Exceptional costs	424	-

Exceptional costs

The exceptional costs of £424,000 have been incurred as part of the reorganisation of the division of The Peninsular and Oriental Steam Navigation Company of which the company is a member. This reorganisation has separated the company's freight ferry and unit load operations to facilitate improved focus on the particular customer requirements in each sector.

4 Remuneration of directors

	1997 £000	1996 £000
Directors' emoluments:		
As directors	295	195
Company contributions to defined benefit schemes	16	11
	<u>311</u>	<u>206</u>

Retirement benefits are accruing to six (1996: six) directors under defined benefit schemes.

Details of directors' share options are set out in the directors' report on page 2. During the year four (1996: three) directors exercised share options.

Pandoro Limited

Notes (continued)

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:

	Number of employees	
	1997	1996
Administrative	379	335
Other	402	522
	<u>781</u>	<u>857</u>

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	15,575	18,170
Social security costs	1,300	1,511
Other pension costs (see note 20)	625	722
	<u>17,500</u>	<u>20,403</u>

6 Interest payable and similar charges

	1997 £000	1996 £000
On bank loans and overdrafts	1,433	889
Loans from group undertakings	2,085	1,760
	<u>3,518</u>	<u>2,649</u>

7 Taxation

	1997 £000	1996 £000
UK corporation tax at 31% (1996: 33%) on the profit for the year on ordinary activities	(850)	196
Deferred taxation (see note 15)	(77)	1,038
	<u>(927)</u>	<u>1,234</u>

8 Dividends

	1997 £000	1996 £000
Interim equity dividend	3,213	5,300

Pandoro Limited

Notes (continued)

9 Tangible fixed assets

	Freehold properties	Leasehold properties	Ships	Fixtures fittings, tools and equipment	Plant and machiner	Total
	£000	£000	£000	£000	£000	£000
<i>Cost or valuation</i>						
At beginning of year	2,109	1,906	62,855	2,681	34,606	104,157
Additions	25	132	1,241	473	2,221	4,092
Disposals	-	-	-	(917)	(1,377)	(2,294)
Intra group transfers	-	-	-	-	(13)	(13)
Reallocation	-	-	-	11	(11)	-
Revaluation	(154)	-	-	-	-	(154)
At end of year	1,980	2,038	64,096	2,248	35,426	105,788
<i>Depreciation and amortisation</i>						
At beginning of year	-	-	31,649	1,810	17,921	51,380
Charge in year	-	-	2,535	315	2,842	5,692
Disposals	-	-	-	(917)	(1,279)	(2,196)
Intra group transfer	-	-	-	-	(13)	(13)
Reallocation	-	-	-	7	(7)	-
At end of year	-	-	34,184	1,215	19,464	54,863
<i>Net book value</i>						
At 31 December 1997	1,980	2,038	29,912	1,033	15,962	50,925
At 31 December 1996	2,109	1,906	31,206	871	16,685	52,777

Included in leasehold properties is an amount of £1,809,000 (1996: £1,678,000) in respect of leases due to expire after more than 50 years.

Pandoro Limited

Notes (continued)

9 Tangible fixed assets (continued)

Historic cost

	Freehold Properties £000	Leasehold properties £000	Ships £000
Cost			
At beginning of year	1,479	2,056	48,447
Additions	25	132	1,241
At end of year	1,504	2,188	49,688
Depreciation			
At beginning of year	-	-	24,314
Charge in year	-	-	1,605
At end of year	-	-	25,919
Net book value			
At 31 December 1997	1,504	2,188	23,769
At 31 December 1996	1,479	2,056	24,133

The freehold properties of the company were revalued at 31 December 1997 on the basis of open market value for continuing use by RA Knight FRICS, the Chief Surveyor of Peninsular and Oriental Steam Navigation Company, the company's ultimate parent company, in accordance with the RICS Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. Leasehold properties were revalued as at 31 December 1993 and ships were revalued as at 1 December 1990. All other assets and subsequent additions are stated at cost. Fixtures, fittings, tools and equipment and plant and machinery are stated at cost.

Pandoro Limited

Notes (continued)

10 Fixed assets investments

	1997 £000	1996 £000
Shares in subsidiary undertakings at cost	1,191	1,191
Shares in associated company at cost	178	178
Less: provision against associate	(110)	(110)
	<u>1,259</u>	<u>1,259</u>

The principal companies in which the company's interest is more than 20% are as follows:

At beginning and end of year:

	Country of registration or incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
Transcontinental (Rosslare) Limited	England and Wales	Transport services	100% ordinary
Drogheda Ferries Limited	Republic of Ireland	Transport services	100% ordinary
<i>Associated company</i>			
Tank Trans Limited	Republic of Ireland	Transport services	49% ordinary

In the opinion of the directors the investments in and amounts due from the company's subsidiary undertakings and associated company are worth at least the amount at which they are stated in the balance sheet.

As stated in note 21, the company has disposed of its entire holding in Tank Trans Limited since the year end.

11 Stocks

	1997 £000	1996 £000
Raw materials and consumables	<u>2,090</u>	<u>2,338</u>

12 Debtors

	1997 £000	1996 £000
Trade debtors	19,545	17,961
Amounts owed by group undertakings	934	2,712
Prepayments and accrued income	8,341	8,484
Corporation tax	830	-
	<u>29,650</u>	<u>29,157</u>

Pandoro Limited

Notes (continued)

13 Creditors: amounts falling due within one year

	1997		1996	
	£000	£000	£000	£000
Bank loans and overdrafts		17,790		13,014
Trade creditors		3,472		5,898
Amounts owed to group undertakings		2,973		2,718
Other creditors including taxation and social security:				
Corporation tax		-		153
Other taxes and social security	1,057		2,250	
Taxation and social security		1,057		2,403
Accruals and deferred income		14,137		9,346
		<u>39,429</u>		<u>33,379</u>

14 Creditors: amounts falling due after more than one year

	1997	1996
	£000	£000
Amounts owed to group undertakings	<u>25,799</u>	<u>29,073</u>

Included within the amounts owed to parent and fellow subsidiary undertakings is an amount of £4,661,000 (1996: £4,661,000) which falls due after five years.

15 Provisions for liabilities and charges

	£000
<i>Taxation including deferred taxation</i>	
At beginning of year	8,029
Credit for the year in the profit and loss account	(77)
At end of year	<u>7,952</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1997		1996	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	8,261	-	8,227	-
Other timing differences	(309)	-	(198)	-
	<u>7,952</u>	<u>-</u>	<u>8,029</u>	<u>-</u>

Pandoro Limited

Notes (continued)

16 Called up share capital

	1997 £000	1996 £000
<i>Authorised</i>		
5,000,000 ordinary shares of £1 each	5,000	5,000
<i>Allotted, called up and fully paid</i>		
3,000,000 ordinary shares of £1 each	3,000	3,000

17 Reconciliation of movement in shareholder's funds

	Share capital £000	Revaluation reserve £000	Profit and loss account £000	1997 Total £000	1996 Total £000
At start of year:	3,000	7,659	4,512	15,171	18,108
Property revaluations	-	(154)	-	(154)	-
Transfers	-	(930)	930	-	-
Retained loss	-	-	(4,181)	(4,181)	(2,937)
At end of year	3,000	6,575	1,261	10,836	15,171

The cumulative amount of goodwill written off to reserves is £200,000 (1996: £200,000).

18 Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	1997 £000	1996 £000
Contracted	224	562

- (ii) Annual commitments under non-cancellable operating leases are as follows:

	1997		1996	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	75	-	118
In the second to fifth years inclusive	-	2,657	-	1,791
Over five years	339	72	414	791
	339	2,804	414	2,700

Pandoro Limited

Notes (continued)

19 Contingent liabilities

The company has guaranteed certain contract hire payments of Elan Ireland Limited. The annual commitment for this is £115,000 (1996: £116,000).

20 Pension scheme

As explained in the accounting policies set out on page 10, the Group of which the company is a member operates a number of pension schemes. For UK employees, the Group operates a defined benefit pension scheme (The P&O Pension Scheme) and makes contributions to the industry wide merchant navy pension schemes; each of these schemes has assets managed on behalf of the trustees by independent fund managers.

Outside the UK, the Group operates a number of defined benefit schemes and defined contribution schemes and makes contributions to various industry schemes. These generally have assets held in separate trustee administered funds; where this is not the case, the unfunded liabilities are provided for by the Group.

The pension charge for the year was:

	1997 £000	1996 £000
The P&O Pension Scheme	420	488
Merchant Navy pension scheme	125	140
Overseas schemes	80	94
	<hr/> 625	<hr/> 722

Formal actuarial valuations of The P&O Pension Scheme are carried out triennially by R Watson & Sons, consulting actuaries, using the projected unit method, the latest being at 1 April 1997. Particulars of the latest actuarial valuation are contained within the accounts of the Peninsular and Oriental Steam Navigation Company.

The merchant navy pension schemes are principally defined benefit schemes. These schemes' actuaries have advised that the actuarial value of the schemes' assets represent approximately 104 per cent of the value of the benefits accrued to members allowing for future increases in earnings. The latest valuations were at 31 March 1996 in respect of both the officers' and ratings' scheme. Contributions to overseas schemes are assessed in accordance with the advice of independent actuaries.

21 Post balance sheet event

During 1998 the company sold its entire interest in its associated undertaking, Tank Trans Limited, to another group company at its book value.

Pandoro Limited

Notes *(continued)*

22 **Ultimate parent company and parent undertaking of larger group**

The company is a subsidiary undertaking of Peninsular and Oriental Trans European (Holdings) Limited incorporated in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by the company's ultimate parent company The Peninsular and Oriental Steam Navigation Company incorporated in Great Britain and registered in England and Wales, the consolidated accounts of which are available to the public and may be obtained from:

The Registrar of Companies
Companies House
Crown Way
Maindy
Cardiff
CF4 3HZ