

Pandoro Limited

**Directors' report and financial
statements**

Registered number 444786

31 December 1998



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

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 operation was transferred to P&O European Ferries (Irish Sea) Limited with effect from 1 January 1998.

Since the year end the remaining part of the operating activity, its haulage operation, has been transferred to P&O Ferrymasters Limited. This transfer took place on 1 January 1999.

Year 2000

During 1998 the company had an active programme in place for dealing with any issues with computer systems and embedded chips in relation to the Year 2000. This programme has continued post transfer of the remaining business to P&O Ferrymasters. The programme involves identifying where modifications may be necessary within systems developed and maintained by the company, making similar identification and subsequent monitoring of systems and equipment supplied to the company and testing the results of any modifications. Where necessary normal upgrading work is being accelerated to ensure all systems are Year 2000 compliant.

The costs that are expected to be incurred in assessing, testing and replacing the company's systems where necessary are included within that disclosed in the accounts of P&O Ferrymasters Limited.

Dividend

The directors do not recommend the payment of a dividend. (1997: £3,213,000).

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	
	1998	1997	Granted	Exercised	Granted	Exercised
JH Kearsley	7,473	6,408	-	3,382	-	527
P Donnelly	1,600	1,361	2,600	-	400	88
JJ Barr	1,432	1,357	2,000	-	-	-
CJ Rice	1,566	1,474	-	-	-	-

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

Directors' report

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 encourages 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.

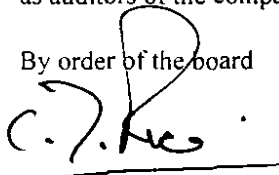
Creditor payment policy

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 1998.

Auditors

In accordance with Section 384 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


CJ Rice
Director

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

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.



KPMG Audit Plc

6 Lower Brook Street
Ipswich
Suffolk IP4 1AP
United Kingdom

Auditors' report to the members of Pandoro Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 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*

15 December 1999

Profit and loss account

for the year ended 31 December 1998

	Note	1998 £000 Discontinued	1997 £000 Discontinued
Turnover	2	56,387	112,420
Cost of sales		(49,920)	(97,780)
		<hr/>	<hr/>
Gross profit		6,467	14,640
Administrative expenses		(7802)	(13,017)
		<hr/>	<hr/>
Operating (loss)/profit		(1,335)	1,623
Interest receivable and similar charges	6	578	-
Interest payable and similar charges	7	(2,271)	(3,518)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3	(3,028)	(1,895)
Tax on loss on ordinary activities	8	83	927
		<hr/>	<hr/>
Loss on ordinary activities after taxation for the financial year		(2,945)	(968)
Dividends	9	-	(3,213)
		<hr/>	<hr/>
Retained loss for the financial year		(2,945)	(4,181)
		<hr/> <hr/>	<hr/> <hr/>

The results above are derived entirely from discontinued operations.

Statement of total recognised gains and losses

for the year ended 31 December 1998

	1998 £000	1997 £000
Loss for the financial year	(2,945)	(968)
Unrealised deficit on revaluation of properties	-	(154)
	<hr/>	<hr/>
Total losses recognised since last annual report	(2,945)	(1,122)
	<hr/> <hr/>	<hr/> <hr/>

Note of historical cost profits and losses
for the year ended 31 December 1998

	1998 £000	1997 £000
Reported loss on ordinary activities before taxation	(3,028)	(1,895)
Realisation of property revaluation gains of previous years	6,116	-
Difference between a historical cost depreciation charge and actual depreciation charge of the year calculated on the revalued amount	-	930
Historical cost profit/(loss) on ordinary activities before taxation	<u>3,088</u>	<u>(965)</u>
Historical cost profit/(loss) for the year retained after taxation and dividends	<u><u>3,171</u></u>	<u><u>(3,251)</u></u>

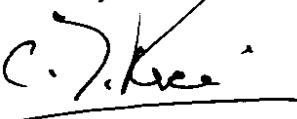
Balance sheet

at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	10	13,814	50,925
Investments	11	1,259	1,259
		<u>15,073</u>	<u>52,184</u>
Current assets			
Stocks	12	146	2,090
Debtors	13	54,439	29,650
Cash at bank and in hand		29	92
		<u>54,614</u>	<u>31,832</u>
Creditors: amounts falling due within one year	14	<u>(59,783)</u>	<u>(39,429)</u>
Net current liabilities		<u>(5,169)</u>	<u>(7,597)</u>
Total assets less current liabilities		<u>9,904</u>	<u>44,587</u>
Creditors: amounts falling due after more than one year	15	-	(25,799)
Provisions for liabilities and charges	16	<u>(2,013)</u>	<u>(7,952)</u>
Net assets		<u>7,891</u>	<u>10,836</u>
Capital and reserves			
Called up share capital	17	3,000	3,000
Revaluation reserve	18	459	6,575
Profit and loss account	18	4,432	1,261
Equity shareholder's funds	18	<u>7,891</u>	<u>10,836</u>

These financial statements were approved by the board of directors on 13/12/99
behalf by:

and were signed on its


CJ Rice
Director

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.

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.

Notes (continued)

2 Analysis of turnover

	1998 £000	1997 £000
<i>By destination</i>		
United Kingdom and Ireland	56,387	106,087
Continental Europe	-	6,333
	<u>56,387</u>	<u>112,420</u>

3 Loss on ordinary activities before taxation

	1998 £000	1997 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration and expenses:		
Audit	4	24
Non audit work	-	10
Non audit work - other offices	-	25
Depreciation and other amounts written off owned tangible fixed assets	2,335	5,692
Hire of plant and machinery - rentals payable under operating leases	47	1,196
Hire of ships - rentals payable under operating leases	-	2,041
Exceptional costs	-	424
	<u>2,386</u>	<u>9,382</u>

4 Remuneration of directors

	1998 £000	1997 £000
Directors' emoluments:		
As directors	-	295
Company contributions to defined benefit schemes	-	16
	<u>-</u>	<u>311</u>

Details of directors' share options are set out in the directors' report on page 2.

Mr JN Kearsley and Mr P Donnelly were paid by P&O European Ferries (Irish Sea) Ltd; Mr J Barr was paid by P&O Ferrymasters Ltd and Mr CJ Rice was paid by P&O Trans European (Holdings) Ltd without specific recharge. Their emoluments are disclosed in the accounts of these companies.

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	
	1998	1997
Administrative	231	379
Other	247	402
	<u>478</u>	<u>781</u>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	9,536	15,575
Social security costs	793	1,300
Other pension costs (see note 21)	671	625
	<u>11,000</u>	<u>17,500</u>

6 Interest receivable and similar charges

	1998	1997
	£000	£000
Interest receivable and similar charges	578	-

7 Interest payable and similar charges

	1998	1997
	£000	£000
On bank loans and overdrafts	-	1,433
Loans from group undertakings	2,271	2,085
	<u>2,271</u>	<u>3,518</u>

Notes *(continued)*

8 Taxation

	1998 £000	1997 £000
UK corporation tax at 31% (1997: 33%) on the profit for the year on ordinary activities	(716)	(850)
Deferred taxation (see note 16)	633	(77)
	<u>(83)</u>	<u>(927)</u>

9 Dividends

	1998 £000	1997 £000
Interim equity dividend	-	3,213
	<u>-</u>	<u>3,213</u>

Notes (continued)

10 Tangible fixed assets

	Freehold properties	Leasehold properties	Ships	Fixtures fittings, tools and equipment	Plant and machinery	Total
	£000	£000	£000	£000	£000	£000
<i>Cost or valuation</i>						
At beginning of year	1,980	2,038	64,096	2,248	35,426	105,788
Additions	-	13	-	20	210	243
Disposals	-	-	-	(82)	(2,605)	(2,687)
Intra group transfers	(460)	(1,744)	(64,096)	(1,808)	(4,291)	(72,399)
Reallocation	-	-	-	(8)	8	-
At end of year	1,520	307	-	370	28,748	30,945
<i>Depreciation and amortisation</i>						
At beginning of year	-	-	34,184	1,215	19,464	54,863
Charge in year	-	-	-	42	2,293	2,335
Disposals	-	-	-	(10)	(2,416)	(2,426)
Intra group transfer	-	-	(34,184)	(1,167)	(2,290)	(37,641)
Reallocation	-	-	-	150	(150)	-
At end of year	-	-	-	230	16,901	17,131
<i>Net book value</i>						
At 31 December 1998	1,520	307	-	140	11,847	13,814
At 31 December 1997	1,980	2,038	29,912	1,033	15,962	50,925

Included in leasehold properties is an amount of £78,000 (1997: £1,809,000) in respect of leases due to expire after more than 50 years.

Notes (continued)

10 Tangible fixed assets (continued)

Historic cost

	Freehold Properties £000	Leasehold properties £000	Ships £000
<i>Cost</i>			
At beginning of year	1,504	2,188	49,688
Additions	-	13	-
Intra group transfers	(482)	(1,744)	(49,688)
	<hr/>	<hr/>	<hr/>
At end of year	1,022	457	-
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At beginning of year	-	-	25,919
Charge in year	-	-	-
Intra group transfers	-	-	(25,919)
	<hr/>	<hr/>	<hr/>
At end of year	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 1998	1,022	457	-
	<hr/>	<hr/>	<hr/>
At 31 December 1997	1,504	2,188	23,769
	<hr/>	<hr/>	<hr/>

The freehold properties of the company were revalued at 31 December 1998 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. All other assets and subsequent additions are stated at cost. Fixtures, fittings, tools and equipment and plant and machinery are stated at cost.

Notes (continued)

11 Fixed assets investments

	1998 £000	1997 £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.

12 Stocks

	1998 £000	1997 £000
Raw materials and consumables	146	2,090
	<u>146</u>	<u>2,090</u>

13 Debtors

	1998 £000	1997 £000
Trade debtors	14,527	19,545
Amounts owed by group undertakings	34,958	934
Prepayments and accrued income	3,319	8,341
Corporation tax	1,635	830
	<u>54,439</u>	<u>29,650</u>

Included within amounts owed by group undertakings is £3,167,000 due after more than 1 year.

Notes (continued)

14 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Bank loans and overdrafts	42,242	17,790
Trade creditors	6,154	3,472
Amounts owed to group undertakings	-	2,973
Other creditors including taxation and social security:	29	1,057
Accruals and deferred income	11,358	14,137
	<u>59,783</u>	<u>39,429</u>

15 Creditors: amounts falling due after more than one year

	1998 £000	1997 £000
Amounts owed to group undertakings	-	25,799
	<u>-</u>	<u>25,799</u>

Included within the amounts owed to parent and fellow subsidiary undertakings is an amount of £Nil (1997: £4,661,000) which falls due after five years.

16 Provisions for liabilities and charges

	1998 £000
<i>Taxation including deferred taxation</i>	
At beginning of year	7,952
Profit and loss charge	633
Current year intra group transfer	(6,572)
	<u>2,013</u>
At end of year	<u>2,013</u>

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

	1998		1997
	Provided £000	Unprovided £000	Provided £000
			Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	2,083	-	8,261
Other timing differences	(70)	-	(309)
	<u>2,013</u>	<u>-</u>	<u>7,952</u>
	<u>2,013</u>	<u>-</u>	<u>-</u>

Notes (continued)

17 Called up share capital

	1998 £000	1997 £000
<i>Authorised</i>		
5,000,000 ordinary shares of £1 each	5,000	5,000
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
3,000,000 ordinary shares of £1 each	3,000	3,000
	<u> </u>	<u> </u>

18 Reconciliation of movement in shareholder's funds

	Share capital £000	Revaluation reserve £000	Profit and loss account £000	1998 Total £000
At start of year:	3,000	6,575	1,261	10,836
Transfers	-	(6,116)	6,116	-
Retained loss	-	-	(2,945)	(2,945)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	3,000	459	4,432	7,891
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The cumulative amount of goodwill written off to reserves is £200,000 (1997: £200,000).

19 Commitments

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

	1998 £000	1997 £000
Contracted	-	224
	<u> </u>	<u> </u>

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

	1998 Land and buildings £000	Other £000	1997 Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	352	-	75
In the second to fifth years inclusive	-	1,558	-	2,657
Over five years	339	117	339	72
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	339	2,027	339	2,804
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

20 Contingent liabilities

The company has guaranteed certain contract hire payments of Elan Ireland Limited. The annual commitment for this is £115,000 (1997: £115,000).

21 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. 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.

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.

22 Post balance sheet event

On 1 January 1999 the assets and business of the company were transferred at book value to P&O Ferrymasters Ltd.

23 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