

P&O OVERSEAS HOLDINGS LIMITED

REGISTERED NUMBER : 537728

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2004



REPORT OF THE DIRECTORS

The directors present their annual report and accounts of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The Company acts as an investment holding company in respect of overseas subsidiary companies. The Company's accounts for the year summarise the movements on investments and reserves.

The results for the year are set out in the profit and loss account on page 5.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003 – £209,010,274).

DIRECTORS

The directors during the year were:

R M Gradon	
P A Walker	
N L Luff	Appointed 1 March 2004
D J Leonard	Appointed 8 December 2004
S Scott	Resigned 8 December 2004
Sir Bruce MacPhail	Resigned 1 March 2004

According to notifications received by the Company relating to the interests of the directors and their families in the share capital and debentures of group companies, there were the following interests in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

	Deferred Stock		Deferred Stock under option			Closing balance 31/12/04
	2004	2003	Opening balance 01/01/04	Granted in year	Exercised in year	
PA Walker	37,933	16,055	160,560	-	-	160,560

M L Luff and R M Gradon are directors of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company, of which this company is a wholly owned subsidiary. Their interests in shares and debentures of group companies and of their awards under the P&O Deferred Bonus and Co-Investment Matching Plan are disclosed in the directors' report of the Company's ultimate holding company, The Peninsular and Oriental Steam Navigation Company.

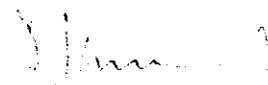
REPORT OF THE DIRECTORS (CONT'D)

AUDITORS

Under 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.

On behalf of the Board

79 Pall Mall
London
SW1Y 5EJ
5 October 2005



D J Leonard
Secretary

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS.

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the independent auditors on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts on pages 5 to 12, the directors are required to select appropriate accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent and state whether all accounting standards which they consider to be applicable have been followed. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS TO MEMBERS OF P&O OVERSEAS HOLDINGS LIMITED

We have audited the financial statements on pages 5 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

8 Salisbury Square
London
EC4Y 8BB
5 October 2005


KPMG Audit Plc
Chartered Accountants
Registered Auditor

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £	2003 £
Income from shares in group undertakings		9,605,065	209,073,306
Impairment in value of group undertakings	4	(340,754,511)	(7,244,715)
Provision against loans		(205,234,512)	-
Exchange movements on borrowings		710,628	(1,284,267)
Other income		<u>2,227</u>	<u>-</u>
Operating (loss)/profit	2	(535,671,103)	200,544,324
Profit on disposal of investments		8,128,313	599,869,969
		<u>(527,542,790)</u>	<u>800,414,293</u>
Interest receivable from subsidiaries		60,537	1,936,230
(Loss)/profit on ordinary activities before taxation		(527,482,253)	802,350,523
Tax on (loss)/profit on ordinary activities	3	(795,346)	(170,248)
		<u>(528,277,599)</u>	<u>802,180,275</u>
(Loss)/profit on ordinary activities after taxation		(528,277,599)	802,180,275
Dividends paid and proposed		-	(209,010,274)
Retained (loss)/profit for the financial year	7	<u>(528,277,599)</u>	<u>593,170,001</u>

All the above transactions relate to continuing business activities. The company has no recognised gains or losses other than those detailed above.

BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £	2003 £
ASSETS			
Fixed Assets			
Investments – Subsidiaries	4	210,347,257	474,666,417
Investments – Associates/Joint Ventures	4	9,313,709	15,872,405
Investments – other	4	1	1
		<u>219,660,967</u>	<u>490,538,823</u>
Current Assets			
Debtors:			
Amounts falling due within one year	5	13,187,760	277,366,180
Amounts falling due after more than one year	5	<u>2,618,542</u>	<u>2,607,470</u>
		15,806,302	279,973,650
Creditors: amounts falling due within one year:			
Amount due to fellow subsidiary		(147,754,320)	-
Other creditors including taxation		<u>(1,084,088)</u>	<u>(4,570,774)</u>
		(148,838,408)	(4,570,774)
Net current (liabilities)/assets		<u>(133,032,106)</u>	<u>275,402,876</u>
Total assets less current liabilities		86,628,861	765,941,699
Creditors: amounts falling due after more than one year			
Amounts owed to ultimate holding company		(20,000,000)	(171,035,239)
Net assets		<u>66,628,861</u>	<u>594,906,460</u>
Capital and Reserves			
Called up share capital	6	1,081,000	1,081,000
Share premium account	7	37,569	37,569
Profit and loss account	7	<u>65,510,292</u>	<u>593,787,891</u>
Equity Shareholders' Funds		<u>66,628,861</u>	<u>594,906,460</u>

The financial statements were approved by the Board on 5 October 2005 and were signed on its behalf by P A Walker.



P A WALKER
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £	2003 £
Total recognised gains and losses for the financial year	(528,277,599)	802,180,275
Dividends	-	(209,010,274)
	<hr/>	<hr/>
Net change in shareholders' funds	(528,277,599)	593,170,001
Equity shareholders' funds at the beginning of the year	594,906,460	1,736,459
	<hr/>	<hr/>
Equity shareholders' funds at the end of the year	66,628,861	594,906,460
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these accounts.

Basis of preparation of accounts

The accounts are prepared on the historical cost basis and in accordance with the Companies Act 1985.

The accounts have been prepared in accordance with applicable United Kingdom accounting standards.

The accounts have been prepared as a going concern.

As the Company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of The Peninsular & Oriental Steam Navigation Company, within which this company is included can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

The Company is exempt under S228 of the Companies Act 1985 from the requirement to prepare group accounts because its results are included in the consolidated accounts of its parent company, The Peninsular and Oriental Steam Navigation Company.

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date. Exchange differences arising in the course of trading are included in operational results and other exchange differences are taken to reserves.

Deferred tax

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet dates except as otherwise required by Financial Reporting Standard 19 (Deferred tax).

Investments

Investments are stated at cost, less amounts written off for impairment in value.

NOTES TO THE ACCOUNTS (CONT'D)

2 PROFIT AND LOSS ACCOUNT

- i The directors do not receive any remuneration for their services to the Company; their emoluments for work within the group are paid by other group companies and are dealt with in the accounts of those companies (2003 - nil).
- ii The Company had no employees during the year (2003 - none).
- iii Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2003 - nil)

3 TAXATION

(a) Analysis of charge in period

	2004 £	2003 £
UK corporation tax on profits for the period	3,994,716	2,917,581
Double Taxation relief	(2,937,264)	(2,721,992)
Overseas tax	-	6,303
Adjustment in respect of prior years	(262,106)	(31,644)
Tax on profit on ordinary activities	<u>795,346</u>	<u>170,248</u>

(b) Factors affecting tax charge for period

	2004 £	2003 £
(Loss)/profit on ordinary activities before tax	<u>(527,482,253)</u>	<u>802,350,523</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(158,244,676)	240,705,157
Effects of:		
UK income not taxable and other permanent adjustments	514,179	2,173,414
Impairments and provisions not deductible for tax	163,796,707	-
Group relief surrendered	367,000	-
Overseas income fully covered by double tax relief	(2,937,264)	(2,721,992)
Non taxable group dividends received	-	(60,000,000)
Non taxable gain on disposal of investment	(2,438,494)	(181,679,476)
Non deductible loss on share buy-back	-	1,718,486
Overseas tax	-	6,303
Adjustment in respect of prior years	(262,106)	(31,644)
Current taxation charge for the period	<u>795,346</u>	<u>170,248</u>

NOTES TO THE ACCOUNTS (CONT'D)

4 FIXED ASSET INVESTMENTS

	Investment in Group Undertakings £	Investment in Assoc / JV £	Unlisted investments £	Total £
Cost				
At 1 January 2004	489,357,597	15,872,405	451,969	505,681,971
Additions	398,844,935	100	-	398,845,035
Disposals	(322,611,331)	(6,558,796)	-	(329,170,127)
At 31 December 2004	565,591,201	9,313,709	451,969	575,356,879
Provisions				
At 1 January 2004	(14,691,180)	-	(451,968)	(15,143,148)
Additions	(340,754,511)	-	-	(340,754,511)
Disposals	201,747	-	-	201,747
At 31 December 2004	(355,243,944)	-	(451,968)	(355,695,912)
Net book value				
At 31 December 2004	210,347,257	9,313,709	1	219,660,967
At 31 December 2003	474,666,417	15,872,405	1	490,538,823

The principal subsidiaries and associates are detailed below:

	Country of incorporation	Direct holding %	Indirect holding %	Type of business
P&O Netherlands BV 6,680 shares of DFL 1,000 each	The Netherlands	100	-	Investments
ACTA Investments (Australia) Limited 1,000 ordinary £1 shares	England	100	-	Investments
P&O Ferries (Holdings) Limited 14,062,500 ordinary £1 shares	England	100	-	Holding Company
P&O European Ferries (Irish Sea) Limited 30,000 ordinary 5p shares 40,600,000 ordinary £1 shares	England	100	-	Ferry Services
P&O European Ferries (Portsmouth) Limited 48,382,638 ordinary £1 shares	England	100	-	Ferry Services
P&O North Sea Ferries Ltd 15,000,110 ordinary £1 shares 1,510,000 5% preference £1 shares	England	100	-	Ferry Services

NOTES TO THE ACCOUNTS (CONT'D)

FIXED ASSET INVESTMENTS (cont'd)

	Country of incorporation	Direct holding %	Indirect holding %	Type of business
P&O European Ferries Espana, S.A. 257,000 ordinary €6.01 shares	Spain	99.6	-	Ferry Services
Promociones Cabo Don Miquel, S.A. 10,000 ordinary €6.02 shares	Spain	100	-	Property Investment
P&O Ferrymasters Limited 20,000,000 ordinary £1 shares	Northern Ireland	58.31	-	International Unit Loads
P&O Ports (Surabaya) Ltd 8,688,120 Ordinary shares US\$1 17,376 redeemable 'A' Ordinary shares US\$0.01	Mauritius	100.00	-	Ports
P&O Ports (Mundra) Pvt Limited 77,000,002 ordinary shares of USD\$1	Mauritius	100.00	-	Ports
South Asia Ports Ltd 2,295,254 ordinary shares US\$1 each	Mauritius	5.00	95.00	Ports
Mozambique International Port Services 21,978 ordinary shares	Mozambique	37.00	30.00	Ports
Associates				
Achieve Ridge Holdings Limited	British Virgin Islands	40.82		Investments
Unlisted investments				
National Transport Company Limited 3,000,000 shares of 1 Saudi Riyal each	Saudi Arabia	30.00		Investments

In the opinion of the directors, the investments are worth at least their book value.

NOTES TO THE ACCOUNTS (CONT'D)

5 DEBTORS

	2004 £	2003 £
Amounts falling due within one year		
Amounts owed by fellow subsidiaries	13,187,760	277,366,180
Amounts falling due after more than one year		
Amounts owed by joint ventures	2,618,542	2,607,470
	<hr/> 15,806,302	<hr/> 279,973,650

6 CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised:		
1,500,000 Ordinary shares of £1 each:	1,500,000	1,500,000
Allotted, called up and fully paid:		
1,081,000 Ordinary shares of £1 each:	1,081,000	1,081,000

7 RESERVES

	Profit and loss account £	Share Premium £	Total £
At 1 January 2004	593,787,891	37,569	593,825,460
Retained loss for the year	<u>(528,277,599)</u>	<u>-</u>	<u>(528,277,599)</u>
At 31 December 2004	<hr/> 65,510,292	<hr/> 37,569	<hr/> 65,547,861

8 ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.