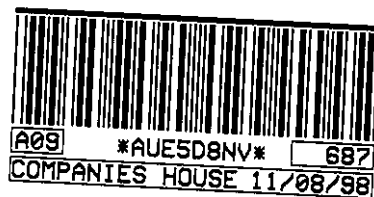


P&O OVERSEAS HOLDINGS LIMITED

REGISTERED NUMBER : 537728

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1997



REPORT OF THE DIRECTORS

The directors present their annual report and accounts of the Company for the year ended 31 December 1997.

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.

FIXED ASSETS

Movements in fixed assets are shown in the notes to the accounts.

DIVIDENDS

The directors do not recommend the payment of a dividend (1996 £20,000,000).

DIRECTORS

The directors during the year were:

Sir Bruce MacPhail
R M Gradon
N J Monteith
D E A Morris
M Owen

Sir Bruce MacPhail and R M Gradon retire by rotation in accordance with the articles of association, and being eligible offer themselves for re-election.

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		
	1997	1996		Granted in year	Exercised in year	
R M Gradon	10,107	5,272	63,284	3,330	-	59,954
N J Monteith	3,716	2,460	24,903	-	884	25,787
M Owen	15,443	11,380	6,029	-	3,083	9,112

Sir Bruce MacPhail and D E A Morris are also members of the board of directors of the ultimate holding company of which this company is a wholly owned subsidiary. Their interests in shares and debentures of group companies are disclosed in the directors' report of that company.

In addition M Owen had an interest in £600 5.5% concessionary stock, at 31 December 1997 and 1996.

REPORT OF THE DIRECTORS (CONT'D)

R M Gradon is a member of the P&O Long Term Incentive Plan and on 27 March 1998, under the scheme, he was awarded £14,764 nominal of deferred stock which is receivable after a retention period of two years.

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



M OWEN
Director
21 July 1998

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 auditors on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the 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 11, the directors are required to select appropriate accounting policies, 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 Auditors

We have audited the accounts on pages 5 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1997 and of the result for the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

21 July 1998



KPMG Audit Plc
Chartered Accountants
Registered Auditor

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 DECEMBER 1997

	Notes	1997 £	1996 £
Income from shares in group undertakings		-	12,306,471
Interest receivable - intra-group		582,502	5,089,540
Interest payable - intra-group		-	(1,156,854)
Profit on sale of investment		-	92,570
Exchange losses		(19,408)	(4,476,628)
Profit on ordinary activities before taxation	2	563,094	11,855,099
Taxation on ordinary activities	3	(176,886)	(5,733,917)
Profit for the financial year attributable to shareholders		386,208	6,121,182
Interim dividend		-	(20,000,000)
Retained profit/(loss) for the financial year	7	386,208	(13,878,818)

All the above transactions relate to continuing business activities.

BALANCE SHEET AT 31 DECEMBER 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Investments	4	61,113,653	61,113,653
CURRENT ASSETS			
Debtors	5	15,421,601	2,317,303
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors including taxation and social security		(7,874,099)	(9,168,748)
Accruals and deferred income		(128,649)	(128,649)
NET CURRENT (LIABILITIES)/ASSETS		7,418,853	(6,980,094)
TOTAL ASSETS LESS CURRENT LIABILITIES		68,532,506	54,133,559
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount owed to ultimate holding company		(40,260,933)	(26,248,194)
		28,271,573	27,885,365
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	27,153,004	26,766,796
EQUITY SHAREHOLDERS' FUNDS		28,271,573	27,885,365

The financial statements were approved by the Board on 21 July 1998 and were signed on its behalf by N J Monteith.



N J MONTEITH
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £	1996 £
Profit for the financial year attributable to shareholders	386,208	6,121,182
Exchange movements on foreign currency net investments	-	1,883,102
Corporation tax on exchange differences taken to reserves	-	262,000
Total recognised gains and losses for the financial year	<u>386,208</u>	<u>8,266,284</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £	1996 £
Total recognised gains and losses for the financial year	386,208	8,266,284
Dividends	-	(20,000,000)
Shareholders' funds at the beginning of the year	27,885,365	39,619,081
Shareholders' funds at the end of the year	<u>28,271,573</u>	<u>27,885,365</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997

1 ACCOUNTING POLICIES

- i The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards. The ultimate holding company has indicated its intention to continue to support the company and its activities.

Under Financial Reporting Standard 1, 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.

- ii Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities and hedged foreign currency equity investments are translated at the rates ruling at the balance sheet dates or at the forward rate when covered by currency contracts. Exchange gains and losses are taken to the profit and loss account except for those arising on foreign currency equity investments and their related hedging loans, which are taken to reserves. Corporation tax attributable to exchange gains and losses on hedging loans is also taken to reserves.
- iii Deferred taxation is provided on the 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.
- iv Investments are stated at cost, less amounts written off for permanent diminutions in value.

2 PROFIT AND LOSS ACCOUNT

- i None of the directors during the year received any remuneration from the company (1996 - nil). The company had no employees during the year (1996 - none).
- ii Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (1996 - nil)

3 TAXATION

The taxation charge on profit on ordinary activities is as follows:

	1997	1996
	£	£
UK Corporation tax at 31.5% (1996 - 33%):		
Current year	(176,886)	(4,601,000)
Prior years	-	(1,768,917)
Double taxation relief	56,000	3,595,222
Overseas taxation	(56,000)	(3,595,222)
Deferred taxation	-	636,000
	<u>(176,886)</u>	<u>(5,733,917)</u>

NOTES TO THE ACCOUNTS (CONT'D)

4 FIXED ASSET INVESTMENTS

	Shares in group undertakings	Unlisted investments	Total
Cost			
At 1 January and 31 December 1997	70,422,905	451,969	70,874,874
	<hr/>	<hr/>	<hr/>
Provisions			
At 1 January and 31 December 1997	(9,309,253)	(451,968)	(9,761,221)
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 1997	61,113,652	1	61,113,653
	<hr/>	<hr/>	<hr/>
At 31 December 1996	61,113,652	1	61,113,653
	<hr/>	<hr/>	<hr/>

Investments in subsidiaries

	Country of incorporation	Direct holding %	Indirect holding %	Type of business
P&O Netherlands BV 6,680 shares of DFL 1,000 each	The Netherlands	100.00	-	Investments
P&O Australia Ltd 35,439,031 Ordinary A\$1 shares		82.85	-	
10,000,000 'A' A\$1 Shares		-	100.00	
2,092,308 'B' A\$1 Shares	Australia	-	100.00	Services
P&O Holding GmbH 42,000,000 DM1 shares	Germany	4.88	95.12	Investments
ACTA Investments (Australia) Limited 1,000 ordinary £1 shares	UK	100.00	-	Investments

NOTES TO THE ACCOUNTS (CONT'D)

FIXED ASSET INVESTMENTS (cont'd)

Investments in fellow subsidiaries

	Country of incorporation	Holding %
P&O American Holdings Ltd 13,600 shares of £1 each	United Kingdom	1.50

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 ultimate parent company, The Peninsular and Oriental Steam Navigation Company.

In the opinion of the directors, the investments in subsidiaries and in the fellow subsidiaries are worth at least their book value.

Unlisted investments

<u>Holding</u>	% of issued <u>capital</u>	Country of <u>incorporation</u>	Directors' <u>valuation</u> £
National Transport Company Ltd 3,000,000 shares of 1 Saudi Riyal each	30%	Saudi Arabia	1

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

5 DEBTORS

	1997 £	1996 £
Amount owed by fellow subsidiaries	15,421,601	-
Amount owed by subsidiary	-	2,317,303
	<hr/> 15,421,601	<hr/> 2,317,303

NOTES TO THE ACCOUNTS (CONT'D)

6 CALLED UP SHARE CAPITAL

	1997 £	1996 £
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 £
At 1 January 1997	26,766,796	37,569
Retained profit for year	386,208	-
At 31 December 1997	27,153,004	37,569

8 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.

The company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company and as such, the company has taken advantage of the exemption available under Financial Reporting Standard 8, not to disclose transactions with other group companies.