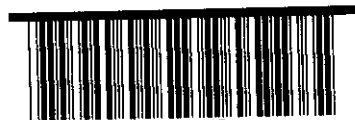


P&O PORTS LIMITED
REGISTERED NUMBER: 751061

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2005



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P&O Ports Limited

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activity and review of business

The Company acts as a holding company for its investments in Southampton Container Terminals Limited and Tilbury Container Services Limited.

Results and dividends

The results for the year are set out in the profit and loss account on page 7.

No dividend was paid or proposed for the year ended 31 December 2005 (2004: £3.621m)

Directors and directors' interests

The directors who held office during the year were:

A J Baillie	(Resigned 1 st June 2005)
N A West	(Resigned 30 th June 2006)
I Simm	(Appointed 6 th October 2005, Resigned 10 th August 2006)
P Walters	(Appointed 1 st June 2005)
M Seymour	(Appointed 1 st June 2005, Resigned 6 th October 2005)
S Edsall	(Appointed 6 th October 2005)
R M Gradon	(Appointed 6 th October 2005, Resigned 30 th June 2006)
R Roels	(Appointed 10 th August 2006)
J Woollacott	(Appointed 10 th August 2006)

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:

	31 Dec 2004	Deferred stock Granted in period	31 Dec 2005
A J Baillie	28,057	(9,838)	18,219**
N A West	17,349	9,644	26,993
P Walters	2,185*	-	2,185
S Edsall	15,574*	101	15,675

	31 Dec 2004	Deferred stock under option Granted /(exercised) in period	31 Dec 2005
A J Baillie	435,785	-	435,785**
N A West	229,935	5,906	235,841
I Simm	99,118*	-	99,118
P Walters	90,238*	-	90,238
S Edsall	257,816*	(23,926)	233,890

*Interest as at date of appointment

** Interest as at date of resignation

P&O Ports Limited

Directors' Report *(continued)*

In addition, during the year N A West, I Simm and S Edsall were each granted an award under the Performance Share Plan of £41,414, £24,634 and £37,130 respectively, nominal of deferred stock, contingent on further performance.

R M Gradon was a director of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company, of which this company is a wholly owned subsidiary. His interests in shares and debentures of group companies and of his awards under the P&O Deferred Bonus and Co-Investment Matching Plan, the P&O Performance Share Plan and the P&O 2005 Matching Share Plan are disclosed in the directors' remuneration report included in the 2005 annual accounts of The Peninsular and Oriental Steam Navigation Company.

By order of the board



Secretary
16 Palace Street
London
SW1E 5JQ

P&O Ports Limited

Profit and loss account

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Income from shares in subsidiaries & associates		-	3,621,000
Profit on ordinary activities before taxation	2	-	3,621,000
Tax on profit on ordinary activities	3	-	-
Result for the financial year		-	3,621,000
Dividends paid and proposed		-	(3,621,000)
Retained profit for the financial year		-	-

The results disclosed above include all recognised gains and losses. All the above transactions relate to continuing business activities.

There is no difference between the profit reported above and that on a historical cost basis.

P&O Ports Limited

Balance Sheet

As at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Investments			
Subsidiaries	4	1,588,454	1,588,454
Associates	5	1,346,211	1,346,211
		<u>2,934,665</u>	<u>2,934,665</u>
Current assets			
Debtors	6	623,303	623,303
		<u>623,303</u>	<u>623,303</u>
Net current assets		<u>623,303</u>	<u>623,303</u>
Net assets		<u>3,557,968</u>	<u>3,557,968</u>
Capital and reserves			
Called up share capital	7	2,934,667	2,934,667
Profit and loss account		623,301	623,301
Equity shareholders' funds		<u>3,557,968</u>	<u>3,557,968</u>

- a) For the year ended 31 December 2005 the company was entitled to exemption under section 249AA(1) of the Companies Act 1985.
- b) Members have not required the company to obtain an audit in accordance with section 249B(2) of the Companies Act 1985.
- c) The directors acknowledge their responsibility for:
 - I. ensuring the company keeps accounting records which comply with section 221; and
 - II. preparing accounts 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 its profit or loss for the financial year, in accordance with the requirements of section 226, and which otherwise comply with the Companies Act relating to accounts, so far as applicable to the company.

These financial statements were approved by the Board of Directors on 25 October 2006 and signed on its behalf by:


Director

P&O Ports Limited

Reconciliation of movements in shareholders' funds *for the year ended 31 December 2005*

	2005 £	2004 £
Profit on ordinary activities after tax	-	3,621,000
Dividends paid	<u>-</u>	<u>(3,621,000)</u>
Net change in shareholders' funds	-	-
Opening shareholders' funds	<u>3,557,968</u>	<u>3,557,968</u>
Closing shareholders' funds	<u>3,557,968</u>	<u>3,557,968</u>

P&O Ports Limited

Notes

(forming part of the financial statements)

1. Accounting policies

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

Basis of preparation of accounts

The accounts have been 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 on a going concern basis.

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 FRS 8 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 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.

Under Financial Reporting Standard 1 (Revised 1996), 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.

Investments

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

Dividend income

Dividend income is recognised in the accounting period in which a dividend is paid by the investee company.

Deferred taxation

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).

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

P&O Ports Limited

Notes (Continued)

2. Profit on ordinary activities before taxation

a) Directors' remuneration

The directors' remuneration for the current financial year is borne by the ultimate holding company.

b) Employee information

The average number of employees during the year excluding directors was nil (2004 - none).

c) Audit fee

The Audit fee for the year was paid by a fellow group company.

3. Taxation on profit on ordinary activities:

	2005 £	2004 £
UK Corporation tax at 30%		
Current year	-	-

Factors affecting the tax charge for the current period

The current tax charge is lower than (2004 – lower than) the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are explained below:

	2005 £	2004 £
Profit on ordinary activities before tax	-	3,621,000
Result on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2004 – 30%)	-	1,086,300
<i>Effects of:</i>		
UK income not taxable	-	(1,086,300)
Total current tax charge for the period	-	-

P&O Ports Limited

Notes (Continued)

4. Subsidiaries

Total
£

Cost

At 1 January 2005 and 31 December 2005

1,588,454

The subsidiary is Southampton Container Terminals Ltd, a container terminal operator registered in England. The Company owns 100% of the ordinary "P" shares which represents an interest of 51% in the business.

5. Associates

Total
£

Cost

At 1 January 2005 and 31 December 2005

1,346,211

The associate is Tilbury Container Services Ltd, a container terminal operator registered in England. The company owns 100% of the ordinary "P" shares, which represents an interest of 34% in the ordinary shares of Tilbury Container Services Ltd, and 51% of the preference shares.

6. Debtors

2005
£

2004
£

Amounts owed by ultimate holding company

631,983

623,303

7. Share capital

Authorised,
allotted,
called up and
fully paid
£

At 31 December 2004 and 31 December 2005
2,934,667 ordinary shares of £1 each

2,934,667

P&O Ports Limited

Notes *(Continued)*

8. Parent undertaking

The results of the company are included in the consolidated accounts of The Peninsular and Oriental Steam Navigation Company, its ultimate United Kingdom parent undertaking, a company incorporated by Royal Charter and therefore not registered, copies of whose accounts can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.

Subsequent to the year-end, on 8 March 2006, The Peninsular and Oriental Steam Navigation Company was acquired by Thunder FZE, a wholly owned subsidiary of Ports, Customs and Free Zone Corporation, Dubai.