

GEARED SHIPS LIMITED

COMPANY REGISTRATION NO. 924055

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000



GEARED SHIPS LIMITED
REPORT OF THE DIRECTORS

The directors present their annual report and the financial statements for the year ended 31 December 2000.

Principal activity and review of business:

The principal activity of the Company was that of owner and operator of geared bulk cargo ships. The Company did not trade during the year. The Company's result for the year is set out on page 4. The loss for the year has been transferred to reserves. The Company continues to look for trading opportunities. The directors do not recommend the payment of a dividend on the ordinary share or on the non-cumulative preference shares in respect of the year ended 31 December 2000 (1999 : £ nil).

Directors and directors' interests:

The directors who held office during the year were:

R M Gradon
 N J Monteith
 M Owen (Resigned 31st October 2000)
 J M Laver (Appointed 31st October 2000)

On 20th April 2001 J M Laver resigned and S Scott was appointed a director of the Company.


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 | | | |
|--------------|----------------|-------|---------|-----------------------------|----------------------|------------------------|--------|
| | 2000 | 1999 | | Granted in year | Exercised in year | Surrendered in year | |
| N J Monteith | 7,105 | 4,493 | 122,429 | 122,429 | 830 | 26,948 | 27,778 |

The interests of R M Gradon in shares and debentures of group companies and of awards under the P&O Long Term Incentive Plan and 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.

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.

79 Pall Mall
 London
 SW1Y 5EJ
 23 August 2001

On behalf of the Board

 S. SCOTT
 Secretary

GEARED SHIPS LIMITED

**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 3, 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 4 to 8, 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.

AUDITORS' REPORT TO THE MEMBERS OF
GEARED SHIPS LIMITED

We have audited the financial statements on pages 4 to 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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. 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

23 August 2001

KPMG Audit Plc

KPMG Audit Plc
Registered Auditor
Chartered Accountants

GEARED SHIPS LIMITED
PROFIT AND LOSS ACCOUNT
FOR YEAR ENDED 31 DECEMBER 2000

| | Notes | 2000 £ | 1999 £ |
|--|-------|--------------|--------------|
| Administration expenses | | (118,367) | (46,833) |
| Loss on ordinary activities before and after taxation | 2 | (118,367) | (46,833) |
| Retained loss at 1 January 2000 | | (14,620,584) | (14,573,751) |
| Retained loss at 31 December 2000 | | (14,738,951) | (14,620,584) |

The Company has no recognised gains or losses other than those detailed above. All of the above transactions relate to discontinued business activities. A statement of the movements in Reserves and Shareholders' Funds is included within note 6 to the financial statements.

GEARED SHIPS LIMITED**BALANCE SHEET AT 31 DECEMBER 2000**

| | Notes | 2000 £ | 1999 £ |
|---|-------|---------------------|---------------------|
| Creditors: amounts falling due within one year | 4 | (1,617,015) | (1,498,648) |
| Creditors: amounts falling due after more than one year | 4 | (12,916,061) | (12,916,061) |
| NET LIABILITIES | | <u>(14,533,076)</u> | <u>(14,414,709)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 5 | 110,000 | 110,000 |
| Other reserves | 6 | 95,875 | 95,875 |
| Profit and loss account | | (14,738,951) | (14,620,584) |
| | | <u>(14,533,076)</u> | <u>(14,414,709)</u> |
| Equity shareholders' funds | | (14,640,876) | (14,522,509) |
| Non-equity shareholders' funds | | 107,800 | 107,800 |
| Shareholders' funds | | <u>(14,533,076)</u> | <u>(14,414,709)</u> |

These financial statements were approved by the Board of Directors on 23 August 2001 and were signed on its behalf by N J Monteith.



N J MONTEITH
Director

GEARED SHIPS LIMITED**NOTES TO THE FINANCIAL STATEMENTS****1. PRINCIPAL ACCOUNTING POLICIES**

- (a) The accounts are prepared on the historical cost basis and in accordance with applicable accounting standards. The financial statements have been prepared on a going concern basis as the parent company has undertaken to provide the company with sufficient funds as are necessary for it to meet its current liabilities. If the going concern basis of preparation were not adopted, no significant adjustments to the company's liabilities would be required.
- (b) 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 of a company which has produced a group cash flow statement in accordance with the provisions of the standard.
- (c) Deferred taxation is provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that it is probable that a liability or asset will crystallise.
- (d) Profit and loss account transactions in foreign currencies are translated into sterling at the exchange rate in operation at the date of the transaction, or where appropriate at contracted forward rates. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates ruling at the balance sheet date. All translation differences and realised foreign exchange differences are taken to the profit and loss account.

2. PROFIT AND LOSS ACCOUNT

- (a) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (1999 - £ nil).
- (b) 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 (1999 -£ nil).
- (c) The Company had no employees during the year (1999 - none).

3. TAXATION

No corporation tax is due (1999 £nil).

GEARED SHIPS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (cont'd)****4. CREDITORS:**

| Amounts falling due within one year | 2000 £ | 1999 £ |
|-------------------------------------|------------------|------------------|
| Former shareholders' loans | <u>1,617,015</u> | <u>1,498,648</u> |

The former shareholders' loans are foreign currency amounts due to Kristian Gerhard Jebsen Skipsrederi A/S. The loan is repayable in one amount and can only be repaid if the company has surplus cash resources available in excess of those required to meet current secured and unsecured and prospective unsecured obligations.

| Amounts falling due after more than one year | 2000 £ | 1999 £ |
|--|-------------------|-------------------|
| Parent and fellow subsidiary undertakings | <u>12,916,061</u> | <u>12,916,061</u> |

5. CALLED UP SHARE CAPITAL

| | 2000 £ | 1999 £ |
|---|----------------|----------------|
| Authorised shares of £1 each: | | |
| 6% (4.8% net) non-cumulative preference shares | 107,800 | 107,800 |
| 6% (4.8% net) redeemable cumulative participating preference shares | 6,600 | 6,600 |
| Ordinary shares | 2,200 | 2,200 |
| | <u>116,600</u> | <u>116,600</u> |
| | 2000 £ | 1999 £ |
| Allotted, called up and fully paid share of £1 each : | | |
| 6% (4.8% net) non-cumulative preference shares | 107,800 | 107,800 |
| Ordinary shares | 2,200 | 2,200 |
| | <u>110,000</u> | <u>110,000</u> |

The holders of the Preference Shares are entitled to a non-cumulative fixed dividend of 6% per annum (including tax credit). On a winding up, they are entitled to the amount paid up on each share. There are no voting rights attached to the shares.

GEARED SHIPS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (cont'd)****6. SHAREHOLDERS' FUNDS AND RESERVES**

| | At 1 Jan 2000 | Retained loss for the financial year | At 31 Dec 2000 |
|----------------------------|---------------------|---|---------------------|
| Share capital | 110,000 | - | 110,000 |
| Capital redemption reserve | 6,600 | - | 6,600 |
| Non-distributable reserve | 89,275 | - | 89,275 |
| Profit and loss account | (14,620,584) | (118,367) | (14,738,951) |
| Total | <u>(14,414,709)</u> | <u>(118,367)</u> | <u>(14,533,076)</u> |

Non-equity shareholders' funds are represented by 107,800 £1 non-cumulative preference shares.

7. ULTIMATE PARENT 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.