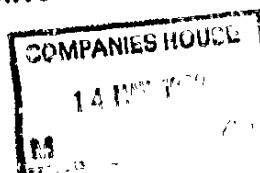


DIRECTORS' REPORT AND ACCOUNTS

NORTH SEA FERRIES LIMITED
(Registered Number 809670)

31 December 1991



NORTH SEA FERRIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1991

The directors present this report and the audited accounts of the company for the year ended 31 December 1991.

DIRECTORS

The members of the board of directors during the course of the year were as follows.

PJ Ford (Chairman)
GDS Dunlop
RD Peters

ACTIVITIES

The company operates roll-on, roll-off ferry services between Hull and Rotterdam, Hull and Zeebrugge, Ipswich and Rotterdam and Teesport and Zeebrugge jointly with its affiliated company Noordzee Veerdiensten (North Sea Ferries) BV.

TRADING RESULTS

The company has continued to trade satisfactorily during the year. The profit and loss account shows a profit after taxation for the financial year of £6,225,545 (1990 £4,951,123).

DIRECTORS' SHAREHOLDINGS

PJ Ford and GDS Dunlop are directors of The Peninsular and Oriental Steam Navigation Company and their interests in shares in that company are recorded in the accounts of The Peninsular and Oriental Steam Navigation Company.

At the end of the year RD Peters had options to acquire 21,500 (1990 21,500) ordinary shares of The Peninsular and Oriental Steam Navigation Company.

The directors have no other beneficial interests in the shares of the company or any other subsidiary of The Peninsular and Oriental Steam Navigation Company.

NORTH SEA FERRIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1991 (CONTINUED)

EMPLOYEES

The company has arrangements for providing information to employees, involving employees in the company's performance and achieving an awareness amongst employees of the factors affecting the company's performance.

It is the company's policy to give fair consideration to the employment needs of disabled people and to comply with any current legislation with regard to disabled persons.

DIVIDENDS

A dividend of £7,339,363 was paid during the year. The directors do not propose a final dividend. A transfer from reserves of £1,113,818 has been made to fund the dividend.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to be re-appointed.

By Order of the Board


J WOOD
Secretary

31 March 1992

Registered Office

King George Dock
Hedon Road
Hull
HU9 5QA

Price Waterhouse



**AUDITORS' REPORT TO THE MEMBERS OF
NORTH SEA FERRIES LIMITED**

We have audited the financial statements on pages 4 to 16 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1991 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants
and Registered Auditor

31 March 1992

NORTH SEA FERRIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1991

	<u>Notes</u>		<u>1990</u>
TURNOVER	1	56,404,559	51,269,466
Operating costs	1 and 2	<u>(47,188,081)</u>	<u>(43,458,911)</u>
OPERATING PROFIT		9,216,478	7,810,555
Share of profits/(losses) of associated companies		55,630	(900)
Net interest payable	4	<u>(87,060)</u>	<u>(112,532)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,185,048	7,697,123
Taxation on ordinary activities	5	<u>(2,959,503)</u>	<u>(2,746,000)</u>
PROFIT AFTER TAXATION		6,225,545	4,951,123
Dividend paid		<u>(7,339,363)</u>	<u>(4,622,104)</u>
TRANSFER (FROM)/TO RESERVES		<u>£(1,113,818)</u>	<u>£329,019</u>

The movement on reserves is set out in Note 13.

NORTH SEA FERRIES LIMITED

BALANCE SHEET - 31 DECEMBER 1991

	Notes		1991	1990
FIXED ASSETS				
Tangible fixed assets	6	11,049,895		12,210,939
Participating interests	7	<u>301,633</u>		<u>247,394</u>
		<u>11,351,528</u>		<u>12,458,333</u>
CURRENT ASSETS				
Stocks		236,611	309,604	
Debtors	8	7,914,218	7,481,400	
Cash at bank and in hand		<u>2,125,169</u>	<u>2,364,588</u>	
		<u>10,275,998</u>	<u>10,155,592</u>	
CREDITORS (amounts falling due within one year)	9	<u>(11,703,050)</u>	<u>(10,546,041)</u>	
NET CURRENT LIABILITIES		<u>(1,427,052)</u>		<u>(390,449)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,924,476		12,067,884
CREDITORS (amounts falling due after one year)	10	(3,586,060)		(4,343,127)
PROVISIONS FOR LIABILITIES AND CHARGES	11	<u>(3,353,128)</u>		<u>(3,603,208)</u>
		<u>£2,985,288</u>		<u>£4,121,549</u>
CAPITAL AND RESERVES				
Called up share capital	12	1,510,100	1,510,100	
Revaluation reserve	13	176,347	198,390	
Retained profits	13	<u>1,298,841</u>	<u>2,413,059</u>	
		<u>£2,985,288</u>		<u>£4,121,549</u>

H. J. Peters,

DIRECTOR

APPROVED BY THE BOARD
ON 31 MARCH 1992

NORTH SEA FERRIES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 1991

	<u>1991</u>	<u>1990</u>
SOURCE OF FUNDS		
Profit before taxation	9,185,048	7,697,123
Adjustments for items not involving the movement of funds:		
Depreciation	1,482,599	1,445,358
Share of (profits)/losses of related companies	(55,630)	900
Movement in provisions (excluding deferred taxation)	59,920	328,071
Profit on sale of fixed assets	<u>(14,135)</u>	<u>(45,476)</u>
TOTAL GENERATED FROM OPERATIONS	10,657,802	9,425,976
FUNDS FROM OTHER SOURCES		
Proceeds from sale of fixed assets	<u>41,719</u>	<u>94,749</u>
	<u>10,699,521</u>	<u>9,520,725</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	349,139	614,383
Payment of dividend	7,339,363	4,622,104
Repayment of bank loans	777,518	777,521
Taxation paid	<u>2,875,503</u>	<u>2,311,000</u>
	<u>11,341,523</u>	<u>8,325,008</u>
(Decrease)/increase in working capital	<u>£(642,002)</u>	<u>£1,195,717</u>
MOVEMENT IN WORKING CAPITAL		
Increase in current assets:		
Stocks	(72,993)	57,594
Debtors	432,818	(475,818)
Cash at bank and in hand	<u>(239,419)</u>	<u>1,348,356</u>
	<u>120,406</u>	<u>930,132</u>
(Increase)/decrease in creditors	<u>(762,408)</u>	<u>265,585</u>
(Decrease)/increase in working capital	<u>£(642,002)</u>	<u>£1,195,717</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991

1 ACCOUNTING POLICIES

(1) General

Although organised as a separate legal entity under United Kingdom law the company constitutes one half of a joint venture with Noordzee Veerdiensten (North Sea Ferries) BV, Rotterdam, formed to operate roll-on, roll-off ferry services between Continental Europe and the United Kingdom. The two companies own equal shares in North Sea Ferries (Belgium) NV, which operates the Zeebrugge terminal, and Norcape Shipping BV, a Dutch company which was formed in 1988 to acquire the vessel "MV Norcape" which operates out of Ipswich.

The ultimate holding company of North Sea Ferries Limited is The Peninsular and Oriental Steam Navigation Company, registered in England, which owns 100% of the share capital. The Peninsular and Oriental Steam Navigation Company has no interest in the share capital of Noordzee Veerdiensten (North Sea Ferries) BV. Other companies within The Peninsular and Oriental Steam Navigation group are referred to in these financial statements as "group undertakings".

A copy of the consolidated accounts of The Peninsular and Oriental Steam Navigation Company can be obtained from Peninsular House, 79 Pall Mall, London, SW1Y 5EJ.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of the ship owned by the company, and in accordance with applicable accounting standards.

(2) Fixed assets

The company's ship is stated at directors' valuation plus the cost of subsequent major structural alterations. Other fixed assets are stated at cost.

(3) Depreciation

The cost or valuation amount of the ship owned by the company, less an estimated residual value, and the costs of other fixed assets are depreciated on a straight line basis over their estimated useful lives which are principally as follows:

Ship	- 25 years
Fixtures and fittings	- 3-10 years
Plant and machinery	- 5-10 years
Motor vehicles	- 4 years

(4) Participating interests - investment in associated companies

Investments in associated companies are stated at cost plus the company's share of accumulated profits or losses, translated at the year end rate of exchange. Unrealised exchange gains or losses arising on translation are transferred to retained profits.

(5) Stocks

Stocks consist of consumables and are stated at the lower of average cost and net realisable value

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(6) Trade debtors

Trade debtors are stated net of an allowance for doubtful debts.

(7) Turnover

Turnover represents sales less rebates and commissions and excludes value added tax.

(8) Operating costs

All costs incurred by the company other than interest and similar charges are deemed to be operating costs. Certain expenses incurred by the company and by Noordzee Veerdiensten (North Sea Ferries) BV are charged in the profit and loss account of the company making payment

(9) Adjustment for equalisation with Noordzee Veerdiensten (North Sea Ferries) BV

The company, together with Noordzee Veerdiensten (North Sea Ferries) BV, is party to an agreement which came into effect from 1 January 1981 and provides, inter alia, for a pooling and sharing of profits or losses before tax.

(10) Deferred taxation

Deferred taxation is provided on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability will crystallise in the future.

(11) Foreign currencies

Transactions and balances in foreign currencies have been translated into pounds sterling at rates approximating to those ruling during and at the end of the year respectively. Exchange differences on short term monetary items are charged or credited to the profit and loss account as they arise. Unrealised exchange gains on long term monetary items are transferred to retained profits.

(12) Vessel charters

The charter hire charges in respect of vessels on short-term charter are included in the profit and loss account on an accruals basis. Amounts charged in respect of a 20 year bare boat charter from a company in the Peninsular and Oriental steam Navigation Company group are treated in the same manner as short-term charter charges.

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(13) Pension costs

The pension costs included in the profit and loss account represent the amounts payable to the trustees of the pension schemes to which the company's eligible employees belong, on the basis of contribution rates advised. Further details of the pension arrangements in place are included in Note 14.

2 OPERATING COSTS

	<u>1991</u>	<u>1990</u>
Operating costs comprise:		
Staff costs (Note 3)	12,592,905	11,506,091
Depreciation	1,482,599	1,445,358
Hire of plant including charter hire	5,720,578	5,699,966
Other external charges	24,622,197	24,061,759
Auditors' remuneration	19,000	17,100
Employee profit sharing scheme	1,606,385	1,320,584
Adjustment for equalisation with Noordzee Veerdiensten (North Sea Ferries) BV	1,164,717	(519,521)
Realised exchange gains	<u>(20,300)</u>	<u>(72,426)</u>
	<u>£47,188,081</u>	<u>£43,458,911</u>

3 DIRECTORS AND EMPLOYEES

(1) Directors' remuneration comprises:

	<u>1991</u>	<u>1990</u>
	£	£
Fees	-	-
Other emoluments (including pension contributions)	17,281	11,852
Emoluments (excluding pension contributions) of:		
Chairman	17,281	7,042
Highest paid director	<u>17,281</u>	<u>7,042</u>
	Number	Number
The number of other directors whose emoluments were within the ranges:		
£0 - £5,000	<u>1</u>	<u>2</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

3 DIRECTORS AND EMPLOYEES (CONTINUED)

(2) Staff costs

	<u>1991</u>	<u>1990</u>
Wages and salaries	3,996,987	3,587,857
UK	7,232,552	6,637,357
overseas	863,026	797,326
Social security costs	<u>500,340</u>	<u>483,551</u>
Other pension costs	£12,592,905	£11,506,091

(3) Average number of persons employed during the year:

	Number	Number
UK	224	223
Overseas	<u>408</u>	<u>401</u>
	632	624

4 NET INTEREST PAYABLE

	<u>1991</u>	<u>1990</u>
Long-term bank loan interest payable	(378,991)	(440,216)
Bank interest receivable	<u>291,931</u>	<u>327,684</u>
	£(87,060)	£(112,532)

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

5 TAXATION ON ORDINARY ACTIVITIES

	<u>1991</u>	<u>1990</u>
UK corporation tax on the profit for the year at 33 1/3% (1990 35%) - current	3,214,000	2,820,000
- prior year	55,503	-
Deferred taxation at 33 1/3% (1990 35%) - current	(128,000)	(75,000)
- prior year	<u>(182,000)</u>	<u>1,000</u>
	<u>£2,959,503</u>	<u>£2,746,000</u>

The prior year adjustment in respect of deferred taxation in the accounts for the year ended 31 December 1991 has arisen as a result of the change in the UK corporation tax rate.

6 TANGIBLE FIXED ASSETS

	<u>Ship</u>	<u>Fixtures, fittings and motor vehicles</u>	<u>Plant and machinery</u>	<u>Total</u>
<u>Cost or valuation</u>				
At 1 January 1991	24,876,689	948,544	2,104,273	27,929,506
Additions	-	227,539	121,600	349,139
Disposals	-	(48,035)	(109,076)	(157,111)
Reclassification	-	<u>(10,689)</u>	<u>10,689</u>	-
At 31 December 1991	<u>24,876,689</u>	<u>1,117,359</u>	<u>2,127,486</u>	<u>28,121,534</u>
<u>Being:</u>				
At valuation	17,121,418	-	-	17,121,418
At cost	<u>7,755,271</u>	<u>1,117,359</u>	<u>2,127,486</u>	<u>11,000,116</u>
	<u>24,876,689</u>	<u>1,117,359</u>	<u>2,127,486</u>	<u>28,121,534</u>
<u>Accumulated depreciation</u>				
At 1 January 1991	14,136,904	388,416	1,193,247	15,718,567
On disposals	-	(29,156)	(100,371)	(129,527)
Charge for the year	1,069,977	177,056	235,566	1,482,599
Reclassification	-	<u>(10,689)</u>	<u>10,689</u>	-
At 31 December 1991	<u>15,206,881</u>	<u>525,627</u>	<u>1,339,131</u>	<u>17,071,639</u>
<u>Net book amount</u>				
At 31 December 1991	<u>£9,669,808</u>	<u>£591,732</u>	<u>£788,355</u>	<u>£11,049,895</u>
At 31 December 1990	<u>£10,730,785</u>	<u>£560,128</u>	<u>£911,026</u>	<u>£12,201,939</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

7 PARTICIPATING INTERESTS

The company's participating interests comprise investments in shares in associated companies.

	<u>1991</u>	<u>1990</u>
Shares at cost, at historical exchange rate	336,366	336,366
Share of accumulated profits/(losses)	<u>14,538</u>	<u>(41,092)</u>
	350,904	295,274
Cumulative exchange movement arising on re-translation of accumulated profits/losses	<u>(49,271)</u>	<u>(47,880)</u>
	<u>£301,633</u>	<u>£247,394</u>

The company's investment in associated companies comprises:

50% of the share capital of North Sea Ferries (Belgium) NV, a company incorporated in Belgium.

50% of the share capital of Norcape Shipping BV, a Dutch registered company. This company commenced trading in 1989.

The company also owns 100% of the share capital of Davclare Limited, registered in England. The cost of the share capital, £100, is included in cost of shares shown above. Davclare Limited did not operate during the year and has net assets of £100. Group accounts are not presented as the amounts involved are not material and the company is a wholly-owned subsidiary of another company incorporated in Great Britain.

8 DEBTORS

	<u>1991</u>	<u>1990</u>
Trade debtors	6,298,141	6,247,546
Amounts owed by group undertakings	514,048	541,100
Other debtors and prepayments	<u>1,102,029</u>	<u>692,754</u>
	<u>£7,914,218</u>	<u>£7,481,400</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

9 CREDITORS (due within one year)

	<u>1991</u>	<u>1990</u>
Current portion of bank loans (Note 10)	778,703	778,102
Trade creditors	2,194,533	1,583,282
Amounts owed to Noordzee Veerdiensten (North Sea Ferries) BV	553,990	1,129,386
Corporation tax payable	3,214,000	2,820,000
Social security and other taxation	383,811	339,572
Accruals and deferred income	<u>4,578,013</u>	<u>3,895,699</u>
	<u>£11,703,050</u>	<u>£10,546,041</u>

10 CREDITORS (due after one year)

	<u>1991</u>	<u>1990</u>
Bank loans	<u>£3,586,060</u>	<u>£4,343,127</u>

These bank loans were obtained to finance the lengthening of the MV Norland. Their terms are as follows:

- (1) £2,956,512 from Kreditanstalt für Wiederaufbau repayable in seven instalments of £369,820 at six monthly intervals between 14 June 1992 and 14 June 1995, with a final payment of £369,772 on 14 December 1995. Interest is charged at a fixed rate of 8% per annum. This loan is secured on the MV Norland.
- (2) 4,500,000 Dutch florins from Algemene Bank Nederland NV repayable in eight instalments of 62,500 Dutch florins at six monthly intervals between 1 January 1992 and 1 July 1995 and four instalments of 1,000,000 Dutch florins between 1 January 1996 and 1 July 1997. Interest is charged at a fixed rate of 7.125% per annum. This loan is unsecured.

The repayment dates of these loans can be summarised as follows:

	<u>1991</u>	<u>1990</u>
Within one year	<u>£778,703</u>	<u>£778,102</u>
Between one and two years	778,703	778,102
Between two and five years	2,182,357	2,334,256
After five years	<u>625,000</u>	<u>1,230,769</u>
	<u>£3,586,060</u>	<u>£4,343,127</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

11 PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Deferred taxation</u>	<u>Other provisions</u>	<u>Total</u>
At the beginning of the year	3,180,000	423,208	3,603,208
Utilised during the year	-	(411,547)	(411,547)
(Released)/provided during the year	<u>(310,000)</u>	<u>471,467</u>	<u>161,467</u>
At the end of the year	<u>£2,870,000</u>	<u>£483,128</u>	<u>£3,353,128</u>

The full potential liability for deferred taxation, calculated at 33% (1990 35%), is as follows:

	<u>1991</u>	<u>1990</u>
Accelerated capital allowances	2,910,000	3,234,000
Other timing differences	<u>(40,000)</u>	<u>(54,000)</u>
	<u>£2,870,000</u>	<u>£3,180,000</u>

12 CALLED UP SHARE CAPITAL

Authorised, allotted and fully paid:

	<u>1991</u>	<u>1990</u>
Ordinary shares of £1 each	100	100
5% non-cumulative preference shares of £1 each	<u>1,510,000</u>	<u>1,510,000</u>
	<u>£1,510,100</u>	<u>£1,510,100</u>

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

13 RESEVES

	<u>Retained profits</u>	<u>Revaluation reserve</u>
At the beginning of the year	2,413,059	198,390
Transfer of realised element of revaluation surplus	22,043	(22,043)
Transfer to profit and loss account	(1,113,818)	-
Exchange loss arising on revaluation of shares in associated companies	(1,391)	-
Unrealised exchange loss on foreign currency loans	<u>(21,052)</u>	<u>-</u>
At the end of the year	<u>£1,298,841</u>	<u>£176,347</u>

A revaluation surplus of £551,079 arose on a directors' valuation of MV Norland in 1974. The balance on the revaluation reserve is being transferred to retained profits, which are distributable, over the estimated life of the vessel concerned of 25 years.

14 PENSION ARRANGEMENTS

The company participates in the following defined benefit schemes.

- (1) The Merchant Navy Officers Pension Fund and the Merchant Navy Ratings Pension Fund. Contributions to these schemes are based on pension costs across all of the contributory companies which have employees within these schemes. Particulars of the most recent actuarial valuations of these schemes are contained in the Funds' published accounts.
- (2) A group scheme funded by The Peninsular and Oriental Steam Navigation Company in respect of those employees who are eligible for membership but are not members of the above-named schemes. Contributions to this scheme are based on pension costs across the P & O group as a whole. Particulars of the most recent actuarial valuation of the group scheme are contained in the accounts of The Peninsular and Oriental Steam Navigation Company.

NORTH SEA FERRIES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1991 (CONTINUED)

15 CHARTER HIRE COMMITMENTS

The company has annual commitments under a charter hire agreement as follows:

	<u>1991</u>	<u>1990</u>
	£	£
Expiry within one year	427,281	493,479
Expiry between one and five years	2,008,236	
Expiry after five years	4,616,781	4,545,753
	<u> </u>	<u> </u>

16 CAPITAL COMMITMENTS

Authorised but not contracted

<u>1991</u>	<u>1990</u>
<u>£968,900</u>	<u>£409,700</u>