

P&O Ship Management (Irish Sea) Limited

**Directors' report and financial
statements**

Registered Number 971533

31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principle activity of the company was the leasing of a ship (*European Diplomat*), which was utilised by P&O European Ferries (Irish Sea) Limited.

Business review

The company's trading provided a satisfactory result which is set out on page 5.

The *European Diplomat* was purchased on 16 May 2002, this has been leased to P&O European Ferries (Irish Sea) Limited during the year. The ownership of the vessel was transferred to P&O European Ferries (Irish Sea) Limited on 23 December 2003.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend.

The result for the year retained in the company is £nil (2002: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

J White (resigned 30 April 2004)
 RS Leigh
 RD Peters (appointed 28 April 2004)
 H Deeble (appointed 28 April 2004)
 M Ridley (appointed 28 April 2004)

The directors of the company, and their families, had the following beneficial interests in the £1 nominal of deferred stock of the company's ultimate parent company, The Peninsular and Oriental Steam Navigation Company. None of the directors had any interests in the share capital of the company.

	2002	Exercised/released during the year	New options granted during the year	Grant price	2003
RS Leigh	22,283	-	-	-	22,283
	15,545	-	-	206p	15,545
	20,068	-	-	166p	20,068
J White	30,260	-	-	-	30,260
	13,262	-	-	206p	13,262
	17,687	-	-	166p	17,687

The mid-market price of the deferred stock at 31 December 2003 was 230p (2002: 165p). The highest mid-market price during the year was 285.5p (2002: 290p) and the lowest mid-market price was 145.25p (2002: 160p). No options lapsed during the year. The deferred stock options are generally exercisable not later than September 2012.

Directors' report

Directors and directors' interests *(continued)*

The directors and their families had the following beneficial interests in the £1 nominal of deferred stock of the company's ultimate parent company, the Peninsular and Oriental Steam Navigation Company.

	Deferred stock	
	2003	2002
J White	1,128	3,161
RS Leigh	60	60

Liability insurance

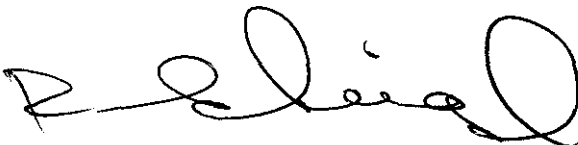
During the year the company maintained liability insurance for its officers.

Auditors

In accordance with 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.

By order of the board

RS Leigh
Company secretary



Copse Road
Fleetwood
FY7 6RP

 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the company and detect fraud and other irregularities.



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PRESTON
Lancashire PR2 2YF

Independent auditor's report to the members of P&O Ship Management (Irish Sea) Limited

We have audited the financial statements on pages 5 to 10.

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 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

14 July 2004

Profit and loss account

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover	2	4,878	3,923
Cost of sales		(4,883)	(3,898)
Gross profit		(5)	25
Interest payable and similar charges		-	-
(Loss)/profit on ordinary activities before taxation	3	(5)	25
Tax on profit on ordinary activities	4	5	(25)
Profit on ordinary activities after taxation		-	-
Retained profit brought forward		86	86
Retained profit carried forward		86	86

Statement of total recognised gains and losses

for the year ended 31 December 2003

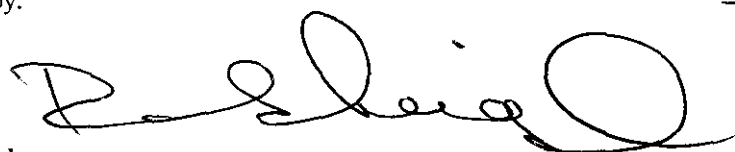
The profit as shown in the profit and loss account is the only gain or loss recognised in these financial statements.

Balance sheet

at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible assets	5	-	3,421
Current assets			
Debtors	6	86	-
Creditors: amounts falling due within one year	7	-	(3,335)
Net current assets/(liabilities)		86	(3,335)
Total assets less current liabilities		86	86
Net assets		86	86
Capital and reserves			
Called up share capital	8	-	-
Profit and loss account	9	86	86
Equity shareholder's funds	9	86	86

These financial statements were approved by the board of directors on 1 July 2004 and were signed on its behalf by:



RS Leigh
 Director

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 company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Peninsular and Oriental Steam Navigation Company, and its cash flows are included within the consolidated cash flow statement of that company.

Related party transactions

The directors have taken advantage of the exemption in Financial Reporting Standards 8 paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Ships	20 to 30 years
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Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using the year end exchange rates. The exchange differences are taken to the profit and loss account.

Deferred taxation

The P&O Group elected to enter the UK tonnage tax regime for its shipping related activities with effect from 1 January 2002. This has the effect of eliminating related future potential tax liabilities on shipping related profits in the United Kingdom.

2 Turnover

Turnover represents the recharging of the costs of the *European Diplomat* incurred during the year (excluding VAT) to P&O European Ferries (Irish Sea) Limited.

Notes (continued)

3 (Loss)/profit on ordinary activities before taxation

	2003 £000	2002 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	2	2
Depreciation and other amounts written off tangible fixed assets	627	426

4 Taxation

	2003 £000	2002 £000
<i>Current tax:</i>		
UK corporation tax on profits	9	25
Adjustments in respect of prior period	(14)	-
Total current tax	(5)	25
Total tax assessed for the year	(5)	25

The tax assessed for the period is lower (2002: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before tax	(5)	25
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(2)	8
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2	(8)
Tonnage tax	9	25
Adjustments to tax charge in respect of previous periods	(14)	-
Current tax charge for the period	(5)	25

The P&O Group elected to enter the UK tonnage tax regime for its shipping related activities with effect from 1 January 2002.

Notes (continued)

5 Tangible fixed assets

	Plant and equipment £000
Cost	
At beginning of year	3,847
Additions	260
Disposals	-
Transfers to group undertakings	(4,107)
At end of year	-
Depreciation	
At beginning of year	426
Charge for year	627
Disposals	-
Transfers to group undertakings	(1,053)
At end of year	-
Net book value	
At 31 December 2003	-
At 31 December 2002	3,421

6 Debtors

	2003 £000	2002 £000
Amounts owed by parent undertakings	86	-

7 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Amounts owed to parent undertakings	-	3,335

8 Called up share capital

	2003 Number	2002 Number
Authorised		
Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
Ordinary shares of £1 each	100	100

Notes *(continued)*

9 Reconciliation of movements in shareholder's funds

	2003	2002
	£000	£000
Profit for the financial year	-	-
Opening shareholders' funds	86	86
Closing shareholders' funds	86	86

10 Commitments

There were no capital commitments at the end of the financial year.

11 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of P&O European Ferries (Irish Sea) Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by the company's ultimate parent company The Peninsular and Oriental Steam Navigation Company incorporated Great Britain and registered in England and Wales, the consolidated accounts of which are available to the public and may be obtained from:

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