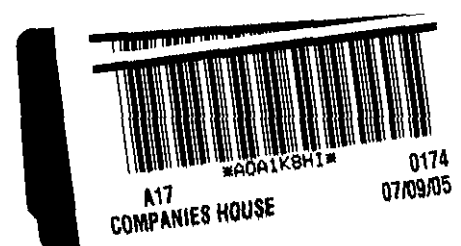


P&O Ship Management (Irish Sea) Limited

Directors' report and financial statements

Registered Number 971533

31 December 2004



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The company did not trade in the year.

Before the company ceased to trade, it's principal activity was the leasing of a ship (*European Diplomat*), which was utilised by P&O European Ferries (Irish Sea) Limited. The ownership of the vessel was transferred to P&O European Ferries (Irish Sea) Limited on 23 December 2003.

Directors

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

J White	(Resigned 30 April 2004)
R S Leigh	(Resigned 12 July 2004)
R D Peters	(Appointed 28 April 2004)
H Deeble	(Appointed 28 April 2004)
M Ridley	(Appointed 28 April 2004; Resigned 17 December 2004)

Directors share interests

According to the register of directors' interests, none of the directors who held office at the end of the financial year had any interest in the shares of the company or its immediate parent company.

The directors who held office at the end of the financial year had the following interests in the £1 ordinary deferred stock of the company's ultimate parent company, The Peninsular and Oriental Steam Navigation Company. R D Peters' interests in the ultimate parent company are disclosed in their financial statements, and are therefore not disclosed here.

	<u>At 31 December 2004</u>	<u>At 1 January 2004 or date of appointment if later</u>
H Deeble	-	-

Directors stock options

According to the register of directors interests, no rights to subscribe for the deferred stock in the ultimate parent company, The Peninsular and Oriental Steam Navigation Company, were granted to any of the directors who held office at the end of the financial year, or their immediate families, or exercised by them, except as indicated below:

	<u>At 1 January 2004 or date of appointment if later</u>	<u>New options granted in 2004</u>	<u>Exercised in 2004</u>	<u>At 31 December 2004</u>
H Deeble	151,994	-	-	151,994

Directors' report (continued)

Directors stock options (continued)

According to the register of directors interests, no rights to subscribe for the SAYE stock options in the ultimate parent company, The Peninsular and Oriental Steam Navigation Company, were granted to any of the directors who held office at the end of the financial year, or their immediate families, or exercised by them during the financial year, except as indicated below:

	<u>At 1 January 2004</u> <u>or date of</u> <u>appointment if later</u>	<u>New options</u> <u>granted in 2004</u>	<u>Exercised in 2004</u>	<u>At 31 December</u> <u>2004</u>
H Deeble	7,382	-	-	7,382

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



H Deeble
Director

Channel House
Channel View Road
Dover
Kent
CT17 9TJ

29 July 2005

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 keeping 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 to prevent and detect fraud and other irregularities.

KPMG Audit Plc

8 Salisbury Square
London EC4Y 8BB
United Kingdom

**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.

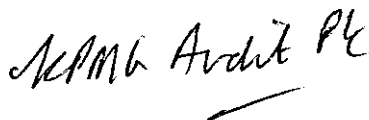
Basis of opinion

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 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

15 August 2005

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover		-	4,878
Cost of sales		-	(4,883)
Loss on ordinary activities before taxation	<i>3</i>	-	(5)
Tax on loss on ordinary activities	<i>4</i>	-	5
Profit/(loss) for the financial year	<i>7</i>	-	-

The company has no gains or losses in 2004 or 2003 other than those reported in the profit and loss account.

The company ceased its activities on 23 December 2003. Therefore, the results shown above all relate to discontinued activities.


Balance sheet

at 31 December 2004

	Note	2004		2003	
		£000	£000	£000	£000
Current assets					
Debtors	5	86		86	
Net current assets			86		86
Net assets			86		86
Capital and reserves					
Called up share capital	6	-		-	
Profit and loss account	7	86		86	
Equity shareholder's funds	7		86		86

These financial statements were approved by the board of directors on 29 July 2005 and were signed on its behalf by:


R D Peters
 Director


H Deeble
 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.

Cashflow

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.

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

The company transferred its ship to another P&O group company on 23 December 2003, and ceased trading. The company did not trade in the year ended 31 December 2004.

Prior to the company ceasing, the turnover represented the recharging of the costs of the *European Diplomat* (excluding VAT) to P&O European Ferries (Irish Sea) Limited.

Notes (continued)

3 Loss on ordinary activities before taxation

	2004 £000	2003 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	-	2
Depreciation and other amounts written off tangible fixed assets	-	627
	<u> </u>	<u> </u>

4 Taxation

	2004 £000	£000	2003 £000	£000
<i>Current tax:</i>				
UK corporation tax on profits	-		9	
Adjustments in respect of prior period	-		(14)	
	<u> </u>		<u> </u>	
Total current tax		-		(5)
Total tax assessed for the year		<u> </u>		<u> </u>
		-		(5)

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

	2004 £000	2003 £000
Loss on ordinary activities before tax	-	(5)
	<u> </u>	<u> </u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	-	(2)
Effects of:		
Expenses not deductible for tax purposes	-	2
Tonnage tax	-	9
Adjustments to tax charge in respect of previous periods	-	(14)
	<u> </u>	<u> </u>
Current tax charge for the period	-	(5)

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 Debtors

	2004 £000	2003 £000
Amounts owed by parent undertakings	86	86

6 Called up share capital

	2004 Number	2003 Number
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	100	100

7 Reconciliation of movements in equity shareholder's funds

	Called up share capital 2004 £000	Profit and loss account 2004 £000	Total 2004 £000	Total 2003 £000
At the beginning of the year	-	86	86	86
Profit for the financial year	-	-	-	-
At the end of the year	-	86	86	86

8 Commitments

There were no capital commitments at the end of the financial year (2003: £nil).

9 Ultimate parent and controlling company

The company's immediate controlling party and parent undertaking is P&O European Ferries (Irish Sea) Limited, a company incorporated in Great Britain and registered in England and Wales. The financial statements of P&O European Ferries (Irish Sea) Limited are available to the public and can be obtained from Channel House, Channel View Road, Dover, Kent CT17 9TJ.

The company's ultimate parent company, The Peninsular and Oriental Steam Navigation Company, a company registered in England and incorporated by Royal Charter, is also the parent undertaking for the smallest and largest group of companies for which group accounts are prepared and P&O Ship Management (Irish Sea) Limited is a member. Copies of the Peninsular and Oriental Steam Navigation Company's consolidated accounts are available to the public and may be obtained from the head office of that company, 79 Pall Mall, London, SW1Y 5EJ.

Notes *(continued)*

10 Related party disclosures

Under Financial Reporting Standard 8, the company is exempted from reporting transactions with its parent and fellow subsidiary undertakings, as 90 per cent or more of the voting rights of the company are controlled within the group.