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**THE ISLE OF MAN STEAM
PACKET COMPANY LIMITED**

**Report and Financial Statements
for year ended 31 December 2003**



THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2003

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THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H A C Ross
D H Grant (appointed 11th July 2003)
J H Kelly (resigned 11th July 2003)
D G Benson (resigned 11th July 2003)
W Gilbey (resigned 11th July 2003)
J B Sherwood (resigned 11th July 2003)
R T D Stott (resigned 11th July 2003)
D J O'Sullivan (resigned 11th July 2003)
R B M Quayle (resigned 11th July 2003)

SECRETARY

D H Grant

REGISTERED OFFICE

Imperial Buildings
Douglas
Isle of Man
IM1 2BY

AUDITORS

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

DIRECTORS' REPORT

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

(a) ACTIVITIES

The principal activity of the company and its subsidiaries ("the Group") is the operation of passenger and freight ferry services and ancillary services.

(b) RESULTS AND DIVIDEND

A profit on operations of £10,242,000 (2002: £11,602,000 profit) has been made by the group during the year. A retained profit of £315,000 (2002 : £7,482,000 loss) has been transferred to reserves.

No dividend was paid for the year ended 31 December 2003 (2002 : £15,100,000)

(c) DIRECTORS

The directors who served during the year are listed below. Except as shown, all of the directors served throughout the year and to date.

H A C Ross	
D H Grant	(appointed 11 th July 2003)
J H Kelly	(resigned 11 th July 2003)
D G Benson	(resigned 11 th July 2003)
W Gilbey	(resigned 11 th July 2003)
J B Sherwood	(resigned 11 th July 2003)
R T D Stott	(resigned 11 th July 2003)
D J O'Sullivan	(resigned 11 th July 2003)
R B M Quayle	(resigned 11 th July 2003)

None of the directors had any notifiable interests in the shares of the company or of other group companies during the year other than The Steam Packet Group Limited (2002: none).

(d) AUDITORS

During the year, Deloitte & Touche resigned and were replaced by KPMG LLP, who in turn resigned and were replaced by KPMG Audit LLC. KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with Section 12 (2) of the Companies Act 1982.

By order of the Board



D H Grant
Company Secretary
Imperial Buildings
Douglas
Isle of Man

Date : 26 July 2004

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

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 group as at the end of the financial year and of the profit or loss of the group 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; and
- prepare the financial statements on a 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 of the group and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 1993. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC,
TO THE MEMBERS OF
THE ISLE OF MAN STEAM PACKET COMPANY LIMITED**

We have audited the financial statements on pages 5 to 26.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. 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 auditors' 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 Isle of Man law and United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the Isle of Man 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 Acts 1931 to 1993. We also report if, in our opinion, 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' transactions with the company is not disclosed.

We read the directors' report accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 group'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 affairs of the company and the group as at 31 December 2003 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Acts 1931 to 1993.

KPMG Audit LLC

Chartered Accountants
Douglas
Isle of Man

Date *27 July 2004*

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

		2003	2002
			Restated
			(note 2)
	Note	£000	£000
Turnover	1b	50,998	47,424
Operating costs		(40,756)	(35,822)
Operating profit	3	10,242	11,602
Revaluation of vessels	7	(7,518)	-
Net interest payable and similar charges	4	(2,409)	(3,984)
Profit on ordinary activities before taxation		315	7,618
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation		315	7,618
Dividend		-	(15,100)
Retained profit/(loss) transferred to/(from) reserves		315	(7,482)

The notes on pages 10 to 26 form part of these financial statements.

The Directors consider that the group's activities are continuing.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED


CONSOLIDATED BALANCE SHEET

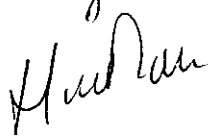
As at 31 December 2003

		2003		2002 Restated (note 2)	
	Note	£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	7	23,057		38,502	
Intangible assets	8	<u>1,388</u>		<u>-</u>	
			24,445		38,502
CURRENT ASSETS					
Stocks	9	1,538		1,177	
Debtors	10	41,912		54,756	
Cash		<u>4,821</u>		<u>7,579</u>	
		48,271		63,512	
CREDITORS : Amounts falling due within one year	11	<u>(7,861)</u>		<u>(11,380)</u>	
NET CURRENT ASSETS			<u>40,410</u>		<u>52,132</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			64,855		90,634
CREDITORS : Amounts falling due after more than one year	12		-		(68,043)
NET ASSETS EXCLUDING PENSION LIABILITIES			64,855		22,591
Pension fund liability	16		(3,710)		(3,665)
NET ASSETS INCLUDING PENSION LIABILITIES			<u>61,145</u>		<u>18,926</u>
CAPITAL AND RESERVES					
Share capital	13		7,500		7,500
Share premium	13		44,227		-
Revaluation reserve	14		650		3,352
Profit and loss account	14		8,768		8,074
EQUITY SHAREHOLDERS' FUNDS			<u>61,145</u>		<u>18,926</u>

The notes on pages 10 to 26 form part of these financial statements.

These financial statements were approved at a meeting of the Board of Directors held on 26 July 2004 and were signed on their behalf by:


Director


Director

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

BALANCE SHEET

As at 31 December 2003

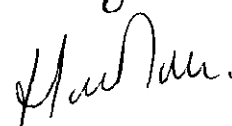
		2003		2002 Restated (note 2)	
	Note	£000	£000	£000	£000
FIXED ASSETS					
Investments	6	20		580	
Tangible assets	7	23,057		38,502	
Intangible assets	8	<u>1,388</u>		<u>-</u>	
			24,465		39,082
CURRENT ASSETS					
Stocks	9	1,538		1,177	
Debtors	10	42,370		54,713	
Cash		<u>4,393</u>		<u>7,331</u>	
		48,301		63,221	
CREDITORS					
Amounts falling due within one year	11	<u>(7,787)</u>		<u>(11,287)</u>	
NET CURRENT ASSETS			<u>40,514</u>		<u>51,934</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			64,979		91,016
CREDITORS : Amounts falling due after more than one year	12		-		(67,764)
NET ASSETS EXCLUDING PENSION LIABILITIES			<u>64,979</u>		<u>23,252</u>
Pension fund liability	16		(3,710)		(3,665)
NET ASSETS INCLUDING PENSION LIABILITIES			<u>61,269</u>		<u>19,587</u>
CAPITAL AND RESERVES					
Share capital	13		7,500		7,500
Share premium	13		44,227		-
Revaluation reserve	14		650		3,352
Profit and loss account	14		<u>8,892</u>		<u>8,735</u>
EQUITY SHAREHOLDERS' FUNDS			<u>61,269</u>		<u>19,587</u>

The notes on pages 10 to 26 form part of these financial statements.

These financial statements were approved at a meeting of the Board of Directors held on 26 July 2004 and were signed on their behalf by:



Director



Director

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED
CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2003

	2003	2002
		Restated
	£000	(note 2)
		£000
Opening shareholders' funds	18,926	29,912
Share premium arising on issue of ordinary shares	44,227	-
Profit for the year	315	7,618
Dividends	-	(15,100)
Other recognised gains and losses	<u>(2,323)</u>	<u>(3,504)</u>
Closing shareholders' funds	<u>61,145</u>	<u>18,926</u>

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2003

	2003	2002
		Restated
	£000	(note 2)
		£000
Gain/(loss) on pension scheme	184	(3,504)
Revaluation of vessels	(3,157)	-
Surplus on revaluation of land and buildings	650	-
	<u>(2,323)</u>	<u>(3,504)</u>
Profit for the year	315	7,618
Prior period adjustment – adoption of FRS 17	(5,001)	-
	<u>(7,009)</u>	<u>4,114</u>

The notes on pages 10 to 26 form part of these financial statements.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2003

		2003	2002
	Note	£000	£000
CASH INFLOW FROM OPERATING ACTIVITIES	18		2,842
RETURNS FROM INVESTMENTS AND SERVICING OF FINANCE			
Interest received		166	
Interest paid		<u>(2,631)</u>	
			(2,465)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,337)	
Sale of tangible fixed assets		<u>725</u>	
			(612)
ACQUISITIONS AND DISPOSALS			
Cash acquired on acquisition			12
CASH OUTFLOW BEFORE FINANCING			<u>(223)</u>
FINANCING			
Loan repayment			(2,535)
DECREASE IN CASH	19		<u>(2,758)</u>

RECONCILIATION OF NET CASH FLOW TO NET DEBT MOVEMENT

	2003	2003
	£000	£000
Decrease in cash during year	(2,758)	
Cash outflow from debt repayments	<u>2,535</u>	
Change in net debt resulting from cash flows		(223)
Loans reduced on sale of Company		61,825
Net debt at 31 st December 2002		(56,781)
Net debt at 31 st December 2003		<u>4,821</u>

The notes on pages 10 to 26 form part of these financial statements

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS

for the year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards applicable in the United Kingdom. The Company has adopted FRS17 "Retirement benefits" in these financial statements, and the comparative statements have been restated accordingly. The particular accounting policies adopted are described below.

(a) Accounting convention and basis of preparation

The consolidated financial statements, which comprise the financial statements of the company and its subsidiaries for the year, are prepared under the historical cost convention, as modified by the revaluation of vessels and land and buildings.

(b) Turnover

Turnover principally comprises income from carrying of passengers, accompanied vehicles and freight, on board sales, management and other professional services, and is accounted for on an accruals basis.

(c) Tangible fixed assets

Depreciation is provided on the cost or valuation of assets in use (less estimated residual values) on the straight line method so as to write off the assets over the following estimated useful lives.

Vessels	- 25 to 30 years
Plant, equipment and vehicles	- 3 to 10 years
Linkspan	- 10 years
Building and other works	- 40 years (short leases over life of the lease)

Depreciation is not provided on the cost of freehold land.

(d) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised and amortised by equal annual instalments over its estimated useful life, being 20 years.

(e) Leased assets

Payments under operating leases are charged to the profit and loss account as incurred.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

(f) Deferred repairs and maintenance

Vessels are required to incur major repairs and maintenance which cannot be performed while the assets are operating. The company capitalises the costs associated with the major repairs and maintenance (including labour), and amortises these costs on a straight-line basis over a period of one to two years depending on the amount of time that lapses between overhauls. Management believes that these criteria are consistent with industry practice and the company's policy of capitalisation reflects the market values of the related assets.

(g) Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

(h) Stocks

Stocks are stated at the lower of cost and net realisable value.

(i) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the exchange rates ruling at the balance sheet date. Foreign currency transactions are converted to sterling at the rate of exchange ruling at the date of the transaction.

All exchange gains or losses on the conversion of foreign currency transactions arising in the ordinary course of trading are included within net interest payable and similar charges.

(j) Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(k) Pensions

The Group operates a defined benefit pension scheme and contributes to industry defined contribution pension schemes. With respect to the defined benefit scheme, in accordance with Financial Reporting Standard 17 "Retirement Benefits", the full service cost for the period, adjusted for any changes to the scheme, is charged to the profit and loss account. A charge equal to the expected increase in the present value of the scheme liabilities as a result of the scheme liabilities being one year closer to settlement and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the profit and loss account.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

(k) Pensions (continued)

The balance sheet records as an asset or liability (as appropriate), the difference between the market value of the scheme assets and the present value of the accrued scheme liabilities, net of deferred tax. The differences between the expected return on assets and that actually achieved in the period is recognised in the statement of total recognised gains and losses.

In respect of the Group's defined contribution pension schemes the pension costs charged to the profit and loss account represent the contributions paid during the year.

(l) Derivatives

The Group's policy for derivatives is to defer and only recognise in the Group profit and loss account gains and losses on hedges of revenues and operating payments as they crystallise. Premiums payable on interest rate caps are amortised over the period of the contracts and are disclosed as interest expense.

2. RESTATEMENT OF COMPARATIVES

The adoption of Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") has required a change to the accounting treatment of pensions and the prior year Balance Sheet and results have been restated as follows:

Consolidated balance sheet

	Debtors & advance accounts £'000	Profit & loss reserve £'000	Pension liability £'000
As previously reported at 31 December 2002	56,092	13,075	-
Adoption of FRS 17 at 31 December 2002	(1,336)	(5,001)	(3,665)
As at 31 December 2002 restated	<u>54,756</u>	<u>8,074</u>	<u>(3,665)</u>

Under FRS 17 the difference between the market value of the assets of the Group's pension fund and the present value of accrued pension liabilities is shown as a liability in the balance sheet net of deferred tax. Previously the only balance sheet item was a prepayment representing the cumulative difference between pension charges included in the profit and loss account and actual payments made to the scheme.

Consolidated profit and loss account

	Profit for the year after taxation £'000
Year ended 31 December 2002 as previously reported	7,741
Adoption of FRS 17	(123)
Year ended 31 December 2002 restated	<u>7,618</u>

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

2. RESTATEMENT OF COMPARATIVES (continued)

The profit and loss charge, under Statement of Standard Accounting Practice 24, comprised a regular pension cost net of spreading the scheme deficit over the average remaining service lives of the members. Under FRS 17, three new items are included in the profit and loss account:

- the current service cost of pension provision for the period, adjusted for the impact of any changes;
- a charge equal to the expected increase in the present value of the scheme liabilities being one year closer to settlement; and
- a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period.

Under FRS 17, the difference between the expected return on pension assets and that actually achieved in the period and differences arising from experience or assumption changes in pension liabilities, are included in the statement of total recognised gains and losses.

If FRS 17 had not been adopted in 2003, the consolidated profit before and after taxation would have decreased to a loss of £7,000.

3. OPERATING PROFIT

Operating profit is stated after charging :

	2003	2002 Restated (note 2)
	£000	£000
Rentals under operating leases	351	253
Depreciation		
Owned assets	1,861	2,323
Leased assets	-	104
Goodwill amortisation	36	-
Realised surplus on sale of fixed assets	175	-
Directors' fees	74	60
Audit fee	40	-
Pension costs	630	343

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£000	£000
Bank loans and overdrafts	-	(461)
Amounts owed to parent and fellow subsidiaries	<u>(2,567)</u>	<u>(3,796)</u>
Total interest payable	(2,567)	(4,257)
Less : interest receivable	166	265
Foreign exchange (loss)/gain on financing	(8)	8
	<u><u>(2,409)</u></u>	<u><u>(3,984)</u></u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The Isle of Man Treasury has issued a concession for a zero per cent tax rate to be applied for all shipping related activities. Accordingly no provision for Isle of Man income tax is required in these accounts in relation to the results for the year.

6. INVESTMENTS

	Company
	£000
As at 1 January 2003	580
Write down in value of shares in SPIOM	(560)
As at 31 December 2003	<u>20</u>

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

6. INVESTMENTS (continued)

Company	Principal activity	2003 £000	2002 £000
Magic Holidays Limited 20,000 £1 Ordinary Shares fully paid	Provision of package holidays	20	20
Mannin Line Limited 100 £1 Ordinary Shares fully paid	Provision of freight services	-	-
Manx Sea Transport Limited 200 £1 Ordinary Shares fully paid	Dormant	-	-
Steam Packet (Liverpool) Limited 1 £0.25 Ordinary Share fully paid	Provision of Shipping Services	-	-
SPIOM Limited 100 £1 Ordinary Shares fully paid	Provision of shipping ancillary services to its parent	-	560
Manx Sea Transport Guernsey Limited 2 £1 Ordinary Shares fully paid.	Provision of manning services to its parent	-	-
		<hr/> 20	<hr/> 580

All of the subsidiary companies are wholly owned and are incorporated in the Isle of Man, except for Man Sea Transport Guernsey Limited, which is incorporated in Guernsey.

Acquisitions

As a part of the purchase of all the shares in Sea Containers Isle of Man Limited by the Steam Packet Group Limited, Steam Packet (Liverpool) Limited, a newly incorporated subsidiary of the Company, acquired part of the business and certain of the assets of Hoverspeed (1981) Limited. The effects of this acquisition have been reflected in the Company's accounts.

	Book and fair value on acquisition £'000
Tangible fixed assets	104
Debtors	736
Cash	12
Stock	545
Creditors	(2,821)
	<hr/> (1,424)
Goodwill	1,424
	<hr/>
Consideration (representing £1)	-
	<hr/>

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

7. TANGIBLE FIXED ASSETS

	Vessels	Land & Buildings	Plant equipment & vehicles owned	Plant Equipment & vehicles leased	Total
Group	£'000	£'000	£'000	£'000	£'000
Cost or valuation at 1 January 2003	49,162	3,444	7,189	359	60,154
Reclassification adjustments	18	862	(521)	(359)	-
Additions	218	-	1,223	-	1,441
Disposals	(9,510)	(550)	-	-	(10,060)
Revaluation	(10,675)	608	-	-	(10,067)
Cost or valuation at 31 December 2003	29,213	4,364	7,891	-	41,468
Accumulated depreciation at 1 January 2003	15,308	697	5,477	170	21,652
Reclassification adjustments	-	11	159	(170)	-
Charge for the year	1,242	94	525	-	1,861
Disposals	(5,060)	-	-	-	(5,060)
Revaluation	-	(42)	-	-	(42)
Accumulated depreciation at 31 December 2003	11,490	760	6,161	-	18,411
Net book value at 31 December 2003	17,723	3,604	1,730	-	23,057
Net book value at 31 December 2002	33,854	2,747	1,712	189	38,502
Company					
Cost or valuation at 1 January 2003	49,162	3,444	7,189	359	60,154
Reclassification adjustments	18	862	(521)	(359)	-
Additions	218	-	1,223	-	1,441
Disposals	(9,510)	(550)	-	-	(10,060)
Revaluation	(10,675)	608	-	-	(10,067)
Cost or valuation at 31 December 2003	29,213	4,364	7,891	-	41,468
Accumulated depreciation at 1 January 2003	15,308	697	5,477	170	21,652
Reclassification adjustments	-	11	159	(170)	-
Charge for the year	1,242	94	525	-	1,861
Disposals	(5,060)	-	-	-	(5,060)
Revaluation	-	(42)	-	-	(42)
Accumulated depreciation at 31 December 2003	11,490	760	6,161	-	18,411
Net book value at 31 December 2003	17,723	3,604	1,730	-	23,057
Net book value at 31 December 2002	33,854	2,747	1,712	189	38,502

The Douglas property is carried at a valuation of £3,604,000. A professional valuation of the property on a market value basis, was carried out in August 2003 by Gerald Eve, Chartered Surveyors. The directors are of the opinion that this valuation is appropriate for use at 31 December 2003.

A professional valuation of the vessels was carried out in June 2003 by S C Chambers, Ship Brokers, and the vessels revalued in accordance with the valuations.

Land and Buildings includes freehold land and buildings in the amount of £3,535,000 (net book value at 31 December 2002 £2,678,000) and leasehold land and buildings in the amount of £69,000 (net book value at 31 December 2002 £69,000).

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

7. TANGIBLE FIXED ASSETS (continued)

The assets of the group have been pledged as security under The Steam Packet Group Debenture Agreement with Bank of Scotland dated 14th July 2003, details of which are contained in Note 23.

8. INTANGIBLE FIXED ASSETS

	Group and Company Goodwill £'000
Cost	
Opening balance at 1 January 2003	-
Additions	1,424
Closing balance at 31 December 2003	<u>1,424</u>
Amortisation	
Opening balance at 1 January	-
Charged in year	(36)
Closing balance at 31 December 2003	<u>(36)</u>
Net carrying value at 31 December 2003	<u>1,388</u>

9. STOCKS

	Group and Company 2003 £000	20 £0
Raw materials and consumables	<u>1,538</u>	<u>1,1</u>

10. DEBTORS

	2003 £000	Group Restated (note 2) 2002 £000	2003 £000	Company Restated (note 2) 2002 £000
Trade debtors	3,216	1,889	3,170	1,869
Other debtors	4,659	2,446	4,651	2,446
Amounts owed by parent and fellow subsidiary companies	32,768	48,871	33,280	48,871
Prepayments and accrued income	1,269	1,550	1,269	1,527
	<u>41,912</u>	<u>54,756</u>	<u>42,370</u>	<u>54,713</u>

The amounts owed by parent and fellow subsidiary companies are unsecured, repayable on demand, and are not interest bearing.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

11. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Trade creditors	2,830	2,082	2,781	2,049
Obligations under finance leases	-	53	-	53
Amount owed to fellow subsidiary - term loan facility (note 12)	-	4,877	-	4,877
Other creditors	511	797	511	797
Accruals and deferred income	4,520	3,571	4,495	3,511
	<u>7,861</u>	<u>11,380</u>	<u>7,787</u>	<u>11,287</u>

The amounts owed to fellow subsidiary under the term loan facility were repaid during 2003.

12. CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Obligations under finance leases	-	247	-	247
Amounts owed to parent and fellow subsidiary companies	-	67,796	-	67,517
	<u>-</u>	<u>68,043</u>	<u>-</u>	<u>67,764</u>

The amounts owed under finance leases and to parent and fellow subsidiary companies were repaid during 2003.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

Year ended 31 December 2003

12. CREDITORS:AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

	2003	2002
	£000	£000
Term facility with IOMSPC Finance Plc		
Within one year (note 11)	-	4,877
Two to five years	-	32,338
Six to ten years	-	26,845
	<u>-</u>	<u>64,060</u>

The Term Facility was repaid during 2003.

Obligations under finance leases (Group and Company)

	2003	2002
	£000	£000
Total liabilities repayable within :		
One year	-	71
Two to five years	-	264
Over five years	-	23
Total liabilities to end of leasing terms	<u>-</u>	<u>358</u>
Less : interest chargeable to future periods	<u>-</u>	<u>(58)</u>
	-	300
Less : amounts repayable within one year	<u>-</u>	<u>(53)</u>
Amounts repayable after more than one year	<u>-</u>	<u>247</u>

All obligations under finance leases were repaid during the year.

13. CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	2003	2002
	£000	£000
Authorised: 32,000,000 ordinary shares of 25p each:	<u>8,000</u>	<u>7,500</u>
Allotted: called up and fully paid 30,000,001 ordinary shares of 25p each:	<u>7,500</u>	<u>7,500</u>

On 11th July 2003 the Company's authorised share capital was increased from £7,500,000 to £8,000,000, and one additional ordinary share was issued to Isle of Man Steam Packet Holdings Limited at a share premium of £44,227,465 in order to facilitate the full repayment of the Securitisation Loans and the inter company balances due from all the Sea Containers group companies.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

14. MOVEMENT ON RESERVES

Revaluation reserve	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Balance at 1 January	3,352	3,352	3,352	3,352
Transfer to profit & loss reserves	(195)	-	(195)	-
Revaluation of vessels	(3,157)	-	(3,157)	-
Property revaluation	650	-	650	-
Balance at 31 December	<u>650</u>	<u>3,352</u>	<u>650</u>	<u>3,352</u>

Profit and loss account	Group		Company	
		Restated		Restated
	2003	(note 2)	2003	(note 2)
	£000	£000	£000	£000
Profit and loss account excluding pension liability	12,478	11,739	12,602	12,400
Pension liability	(3,710)	(3,665)	(3,710)	(3,665)
Profit and loss account including pension liability	<u>8,768</u>	<u>8,074</u>	<u>8,892</u>	<u>8,735</u>

Profit and loss account	Group	Company
	2003	2003
	£000	£000
Balance at 31 December 2002 as previously reported	13,075	13,736
Prior period adjustment (see note 2)	(5,001)	(5,001)
Balance at 31 December 2002 restated	<u>8,074</u>	<u>8,735</u>
Transfer from Revaluation Reserve	195	195
Actuarial gain	184	184
Retained profit/(loss) for the year	315	(222)
Balance at 31 December 2003	<u>8,768</u>	<u>8,892</u>

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

15. CAPITAL COMMITMENTS

	Group and Company	
	2003	2002
	£000	£000
Contracted for but not yet provided	1,130	89
Approved by the directors but not contracted for	-	22
	<u>1,130</u>	<u>111</u>

16. STAFF PENSION FUND

The Isle Of Man Steam Packet Company Limited Staff Pension Fund

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 March 2003 (prior to acquisition) and updated to 31 December 2003 by a qualified independent actuary. The major assumptions used by the actuary were :

	At 31 December 2003	At 31 December 2002
Rate of increase in salaries	3.65%	3.35%
Rate of increase of pensions in payment	2.65%	2.35%
Discount rate	5.40%	5.50%
Inflation assumption	2.65%	2.35%

The assets in the scheme and the expected rate of return were:

		At 31 Dec 2003 £000	At 31 Dec 2002 £000
Equities	7.00%	6,502	5,501
Bonds	5.00%	9,356	9,562
Total market value of assets		15,858	15,063
Actuarial value of liability		<u>(19,568)</u>	<u>(18,728)</u>
Deficit in the scheme		(3,710)	(3,665)
Related deferred tax asset/(liability)		<u>-</u>	<u>-</u>
Net pension liability		<u>(3,710)</u>	<u>(3,665)</u>

The Fund was financed in 2003 by members' contributions of 6% of fund salaries and by company contributions of 12% of fund salaries. Commencing 1st January 2004, members' contributions were increased to 9% of fund salaries and company contributions increased to 15% of fund salaries.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

16. STAFF PENSION FUND (continued)

Amounts chargeable to operating profit under FRS17

	2003	2002
	£'000	£'000
Service cost	461	343
Past service cost	-	-
Expected return on pension scheme assets	(854)	(988)
Interest on pension scheme liabilities	1,023	988
Total operating charge	<u>630</u>	<u>343</u>

Analysis of movement in deficit

	2003	2002
	£'000	£'000
Deficit in scheme at beginning of year	(3,665)	(175)
Movement in year:		
(Current service cost)	(461)	(343)
Contributions	401	357
(Past service costs)	-	-
Net return on assets/(interest cost)	(169)	-
Actuarial gain/(loss)	184	(3,504)
Deficit in scheme at end of year	<u>(3,710)</u>	<u>(3,665)</u>

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2003	2002
	£'000	£'000
Actual return less expected return on assets	265	(2,618)
Experience gains and losses on liabilities	1,286	(90)
Changes in assumptions	(1,367)	(796)
Actuarial gain/(loss) recognised in STGRL	<u>184</u>	<u>(3,504)</u>

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

16. STAFF PENSION FUND (continued)

History of experience gains and losses	2003	2002
Difference between expected and actual return on scheme assets:		
Amount (£'000)	265	(2,618)
Percentage of scheme assets	2%	-17%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	1,286	(90)
Percentage of scheme liabilities	6%	0%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	184	(3,504)
Percentage of scheme liabilities	1%	-19%

Merchant Navy Officer Pension Fund

The company is a qualifying member of the Merchant Navy Officers Pension Fund, a defined benefit scheme registered in the UK. The company is unable to identify its share of the underlying assets and liabilities in the pension fund on a consistent and reasonable basis. As such the scheme has been accounted for as if it were a defined contribution scheme in accordance with FRS 17.

The Trustees of the pension fund are currently seeking guidance from the Court regarding the responsibilities of participating employers in making up any deficiency in the fund.

Merchant Navy Ratings Pension Fund

The company was also a qualifying member of the Merchant Navy Ratings Pension Fund, a defined benefit scheme registered in the UK. The company ceased to be a member of the pension fund on 30 September 1998. The company is unable to identify its share of the underlying assets and liabilities in the pension fund on a consistent and reasonable basis. As such the scheme has been accounted for as if it were a defined contribution scheme in accordance with FRS 17.

Qualifying members of the Merchant Navy Ratings Pension Fund are required by law to make up a deficit totalling £13.37 million. The trustees of the pension fund have proposed a restructuring which has been approved by the Court and has resulted in a payment having to be made by the company to make up its element of the deficit. The company's total share of the deficit is £563,000.

17. USER AGREEMENT WITH THE ISLE OF MAN GOVERNMENT

The company remains bound to the terms of the User Agreement which was signed on 19 September 1995. The agreement was originally for 10 years. However, on 20 February 2002, the option to extend the User Agreement was exercised and the agreement now runs until 18 September 2010.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

17. USER AGREEMENT WITH THE ISLE OF MAN GOVERNMENT (continued)

The main rights and obligations are as follows :

- The Government has granted the company the sole use of the Government owned linkspan situated at the King Edward Pier, Douglas. These rights are subject to a number of specialist, one-off and non company services.
- The company has guaranteed minimum levels of service based on the 1995 schedules and minimum levels of investment. The group shall invest £20 million in vessels over the duration of the agreement with £14 million invested in the first seven years. This obligation has already been satisfied through the purchase of the Ben-My-Chree. There was no investment in vessels in the year ended 31 December 2003.
- Fare level increases above the Manx Retail Price Index, less 0.5%.

18. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2003 £000
Operating profit	10,242
Depreciation	1,861
Goodwill amortisation	36
Total pension operating charge	630
Pension contributions	(401)
Profit on sale of land	(175)
Decrease in Stocks	184
Increase in Debtors	(609)
Decrease in Creditors	(8,926)
	<u>2,842</u>

19. ANALYSIS OF NET DEBT

	At 1 January 2003 £000	Cash flow 2003 £000	Other Non Cash changes 2003 £000	At 31 December 2003 £000
Cash in hand and at bank	7,579	(2,758)	-	4,821
Finance Leases	(300)	-	300	-
Term facility	(64,060)	2,535	61,525	-
	<u>(56,781)</u>	<u>(223)</u>	<u>61,825</u>	<u>4,821</u>

20. RELATED PARTY DISCLOSURE

The following information is provided in accordance with FRS 8 as being transactions with related parties included in the accounts for the period.

During the year the company sold the vessel "Seacat Danmark" to Sea Containers Limited for £4,450,000 as part of the group sale transaction. At the same time, the vessel "Seacat Isle of Man" was purchased from Sea Containers Limited by Steam Packet Group Limited for the same value.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

21. OPERATING LEASE PAYMENTS

At 31 December 2003 the group was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings		Other	
	2003	2002	2003	2002
	£000	£000	£000	£000
Leases which expire:				
Within one year	-	-	-	-
Within two to five years	50	94	164	252
After five years	89	-	46	-
	<u>139</u>	<u>94</u>	<u>210</u>	<u>252</u>

22. ULTIMATE PARENT COMPANY

The company is incorporated in the Isle of Man and is a wholly owned subsidiary of Isle of Man Steam Packet Holdings Limited, incorporated in the Isle of Man. The directors consider the ultimate parent undertaking to be The Steam Packet Group Limited, a company incorporated in the Isle of Man.

The Directors are of the opinion that there is no single ultimate controlling party.

23. GUARANTEES / SECURITY

On 14th July 2003, The Steam Packet Group Limited (the ultimate parent company) and all its subsidiaries entered into a Debenture deed with the Bank of Scotland ("The Security Trustee") to cover the various loans advanced under the Debt Facility and Mezzanine Facility agreements drawn up at the same time.

The obligations of the Issuer have been secured by the Debenture over certain assets as follows:

- An assignment of the Issuer's rights in the following documents: the Security Trustee/Steam Packet Group Facility agreement, The Steam Packet Group Deed of Charge, The Ship Mortgages, the Deeds of Covenant, the Isle of Man and UK Property charges, the Assigned Contracts and Agreements, the Intellectual Property Rights, the Group Shares and Investments.
- Assignment of amounts standing to the credit of its bank accounts;
- A first fixed charge over all its investments; and
- A first floating charge over all its property assets and undertakings not already subject to fixed security.

THE ISLE OF MAN STEAM PACKET COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2003

24 FINANCIAL INSTRUMENTS

The Group has outstanding forward transactions to hedge fuel purchases as follows:

	2003	2002
	£000	£000
Maturing within one year		
- to hedge fuel costs in £ sterling	1,094	-
	<hr/>	<hr/>
Maturing after one year		
- to hedge fuel costs in £ sterling	2,356	-
	<hr/>	<hr/>

As at 31st December 2003, the fair value of the fuel contracts was £3,387,121.(2002: £nil)

Outstanding interest rate cap arrangements are summarised as follows:

	Notional principal	Maturity	Interest rate
At 31st December 2003	<u>£77,600,000</u>	<u>2006</u>	<u>4.5%</u>
At 31st December 2002	<u>£ -</u>	<u>-</u>	<u>-</u>