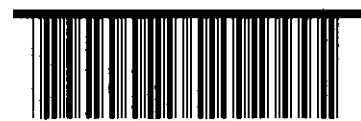


P&O DEVELOPMENTS LIMITED

REGISTERED NUMBER 688388

DIRECTORS' REPORT AND ACCOUNTS

24 DECEMBER 2004



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COMPANIES HOUSE 21/10/2005

REPORT OF THE DIRECTORS

The Directors present the audited financial statements for the year ended 24 December 2004.

Principal activity and review of business:

The company's principal activity is property development and it also provides project management and other development services. The company's accounts for the year summarise the property and other income. Where appropriate, movements on share capital, reserves and fixed assets are set out in the accounts.

Directors and directors' interests:

The directors during the year were:

Sir Bruce MacPhail - Chairman

W T Edgerley - Managing Director

G Brooks

S O F Kerridge

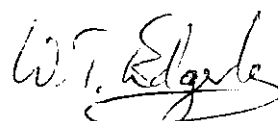
J W Melville (resigned 31 March 2004)

B A Winham

A H Fletcher (appointed 31 January 2005)

All of the directors are also members of the board of directors of P&O Property Holdings Limited, of which this company is a wholly owned subsidiary undertaking. Their interests in shares and debentures of group undertakings are disclosed in the directors' report of that company.

On behalf of the board



W T EDGERLEY
DIRECTOR

247 Tottenham Court Road
LONDON, W1T 7HH
20 October 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 those accounts, the directors are required to select appropriate accounting policies and then employ 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 proper accounting records which disclose with reasonable accuracy the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
P&O DEVELOPMENTS LIMITED**

Page 3

We have audited the accounts on pages 4 to 11.

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 accounts 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 accounts 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 accounts, 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 audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 24 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London
20 October 2005

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

P&O DEVELOPMENTS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 24 DECEMBER 2004

Page 4

| NOTES | Year ended 24 December 2004 £ | Year ended 24 December 2003 £ |
|--|--|--|
| 2 Turnover | 1,315,696 | 1,168,593 |
| Intra group fees receivable | 2,750,000 | 2,750,000 |
| Administration expenses | (2,651,118) | (3,128,292) |
| Stock provision | (2,369,826) | - |
| Other operating income | 86,466 | 142,110 |
| Operating (loss)/profit | <u>(868,782)</u> | <u>932,411</u> |
| Interest receivable - third party | 4,204 | - |
| 3 (Loss)/profit on ordinary activities before taxation | <u>(864,578)</u> | <u>932,411</u> |
| 4 Taxation on (loss)/profit on ordinary activities | 45,139 | (529,721) |
| (Loss)/profit on ordinary activities after taxation | <u>(819,439)</u> | <u>402,690</u> |
| BALANCE BROUGHT FORWARD | 993,809 | 591,119 |
| BALANCE CARRIED FORWARD | <u><u>174,370</u></u> | <u><u>993,809</u></u> |

All turnover and operating profits are attributable to continuing operations.

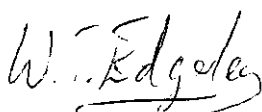
There is no difference between the profits on ordinary activities before taxation and the retained profits for the year stated above, and their historical cost equivalents.

P&O DEVELOPMENTS LIMITED
BALANCE SHEET AT 24 DECEMBER 2004

Page 5

| <u>NOTES</u> | 24 December 2004 | | 24 December 2003 | |
|--|------------------|-----------|------------------|-----------|
| | £ | £ | £ | £ |
| FIXED ASSETS | | | | |
| 5 Tangible Assets | | 120,598 | | 184,330 |
| 6 Investments | | 60 | | 59 |
| CURRENT ASSETS | | | | |
| Stocks: Developments | 5,299,173 | | 7,627,440 | |
| Trade debtors | 69,372 | | 28,093 | |
| Amounts owed by associates | - | | 858,247 | |
| Amounts owed by group undertakings | 155,215 | | - | |
| Other debtors | 537,433 | | 525,661 | |
| Prepayments and accrued income | 349,608 | | 524,432 | |
| | | 6,410,801 | | 9,563,873 |
| | | 6,531,459 | | 9,748,262 |
| CAPITAL AND RESERVES | | | | |
| 7 Called up share capital | | 2,997,663 | | 2,997,663 |
| Other reserves | | 61,909 | | 61,909 |
| Profit and loss account | | 174,370 | | 993,809 |
| Equity shareholders' funds | | 3,233,942 | | 4,053,381 |
| CREDITORS: amounts falling due within one year: | | | | |
| Amounts due to group undertakings | - | | 1,984,856 | |
| Trade creditors | 60,546 | | 36,660 | |
| Taxation | 1,420,941 | | 1,316,285 | |
| Other creditors | 178,525 | | 150,525 | |
| Accruals and deferred income | 1,637,505 | | 2,206,555 | |
| | | 3,297,517 | | 5,694,881 |
| | | 6,531,459 | | 9,748,262 |

The accounts were approved by the Board of Directors and signed on its behalf by:-



W T EDGERLEY
 Directors
 20 October 2005



A H FLETCHER

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | Year to 24 December 2004 £ | Year to 24 December 2003 £ |
|--|---|---|
| Profit for the financial year | (819,439) | 402,690 |
| Total recognised losses and gains relating to the year | <u>(819,439)</u> | <u>402,690</u> |

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Year to 24 December 2004 £ | Year to 24 December 2003 £ |
|-----------------------------------|---|---|
| Total recognised gains and losses | (819,439) | 402,690 |
| Opening shareholders' funds | <u>4,053,381</u> | <u>3,650,691</u> |
| Closing shareholders' funds | <u>3,233,942</u> | <u>4,053,381</u> |

1 ACCOUNTING POLICIES

The principal accounting policies that have been adopted in the preparation of these accounts are given below.

Basis of preparation of accounts

The accounts have been prepared in accordance with applicable United Kingdom accounting standards, and under historical cost accounting rules.

Development and dealing properties

Development and dealing properties are included in current assets at the lower of cost and net realisable value. Interest and other outgoings less income receivable are charged to the profit and loss account during development.

Cash flow statement

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

Fixed assets

The costs of tangible fixed assets are written off over their expected useful lives on a straight line basis at the following rates:

| | |
|--|-----------------|
| Motor vehicles | 25% per annum |
| Plant and machinery, fixtures and fittings | 20% per annum |
| Office and computer equipment | 33.3% per annum |

Related party transactions

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose transactions or balances with entities which form part of the group.

2 ANALYSIS OF TURNOVER

| | 24 December 2004 | 24 December 2003 |
|-------------------------|-------------------------|-------------------------|
| | £ | £ |
| Project management fees | 1,315,696 | 1,168,593 |
| | <u>1,315,696</u> | <u>1,168,593</u> |

There is only one class of business, being project management fees earned during property construction and all turnover was generated in the United Kingdom.

3 PROFIT AND LOSS ACCOUNT

- (a) The company's business is organised in the United Kingdom.
- (b) The basis of charging intra-group interest is agreed between the parties from time to time.
- (c) 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 undertakings and are dealt with in the accounts of those undertakings.
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company.
- (e) Details of staff numbers and staff costs are disclosed in the accounts of the parent undertaking.
- (f) Profit on ordinary activities before taxation is stated after charging depreciation of £84,495 (2003: £81,798).

4 TAXATION

| | 24 December 2004 £ | 24 December 2003 £ |
|---|-----------------------|-----------------------|
| Analysis of charge in the period | | |
| UK corporation tax at 30% (2003: 30%) | 243,311 | (542,000) |
| Adjustments in respect of prior periods | (198,172) | (302,721) |
| | 45,139 | (844,721) |
| Deferred taxation | - | 315,000 |
| Tax on profit on ordinary activities | 45,139 | (529,721) |

Factors affecting the tax charge for the current period

The tax charge for the period is higher (2003: higher) than the standard rate of corporation tax in the UK 30%, (2003: 30%). The differences are explained below.

| | 24 December 2004 £ | 24 December 2003 £ |
|---|-----------------------|-----------------------|
| Current tax reconciliation | | |
| (Loss)/profit on ordinary activities before tax | (864,578) | 932,411 |
| Current tax at 30% (2003: 30%) | 259,373 | (279,723) |
| Effects of: | | |
| Movement in non taxable provisions | - | (240,000) |
| Expenses not deductible for tax and other differences | (13,191) | (22,277) |
| Capital allowances in excess of depreciation | (2,871) | - |
| Deductible Interest | 11,906 | - |
| Other permanent differences | (11,906) | - |
| Adjustments in respect of prior periods | (198,172) | (302,721) |
| | 45,139 | (844,721) |

5 TANGIBLE FIXED ASSETS

| | Plant and machinery, fixtures and fittings | Computer Equipment | Motor vehicles | Total |
|-----------------------|---|-------------------------------|---------------------------|----------------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 25 December 2003 | 103,078 | 122,356 | 219,341 | 444,775 |
| Additions | 985 | 21,133 | 21,381 | 43,499 |
| Disposals | - | - | (78,498) | (78,498) |
| At 24 December 2004 | <u>104,063</u> | <u>143,489</u> | <u>162,224</u> | <u>409,776</u> |
| Depreciation | | | | |
| At 25 December 2003 | 75,594 | 75,939 | 108,912 | 260,445 |
| Charge for year | 13,341 | 27,403 | 43,751 | 84,495 |
| On disposals | - | - | (55,762) | (55,762) |
| At 24 December 2004 | <u>88,935</u> | <u>103,342</u> | <u>96,901</u> | <u>289,178</u> |
| Net book value | | | | |
| At 24 December 2004 | <u>15,128</u> | <u>40,147</u> | <u>65,323</u> | <u>120,598</u> |
| At 24 December 2003 | <u>27,484</u> | <u>46,417</u> | <u>110,429</u> | <u>184,330</u> |

6 INVESTMENTS

| | Shares in Subsidiaries | Shares in Associates | Total |
|--------------------------|-----------------------------------|---------------------------------|--------------|
| | £ | £ | £ |
| Cost | | | |
| At 25 December 2003 | 8 | 100 | 108 |
| Additions | 1 | - | 1 |
| Reallocation | 50 | (50) | - |
| Cost at 24 December 2004 | <u>59</u> | <u>50</u> | <u>109</u> |
| Provisions | | | |
| At 25 December 2003 | - | (49) | (49) |
| Reallocation | (49) | 49 | - |
| At 24 December 2004 | <u>(49)</u> | <u>-</u> | <u>(49)</u> |
| Net book value | | | |
| At 24 December 2004 | <u>10</u> | <u>50</u> | <u>60</u> |
| At 24 December 2003 | <u>8</u> | <u>51</u> | <u>59</u> |

6 INVESTMENTS (continued)

INVESTMENT IN SUBSIDIARIES

Shares held comprise:

| | Country of registration | Class of shares | Percentage of Equity Shares held |
|-------------------------------|----------------------------|--------------------|-------------------------------------|
| Imperial Wharf Ltd | England | Ordinary £1 | 100% |
| York Technology Park Ltd | England | Ordinary £1 | 100% |
| P&O Developments (CH) Ltd | England | Ordinary £1 | 100% |
| P&O Developments (LRT) Ltd | England | Ordinary £1 | 100% |
| P&O Developments (Gwent) Ltd | England | Ordinary £1 | 100% |
| Millennium Park (Grimsby) Ltd | England | Ordinary £1 | 100% |

In the opinion of the Directors, the value of the company's investments in its subsidiaries is not less than the amount at which it is stated in the balance sheet.

During the year the company acquired from Kestonbond Holdings Limited its shareholding in Millennium Park (Grimsby) Ltd, which has become a wholly owned subsidiary.

At 24 December 2004, P&O Developments Limited owned 50% of the ordinary share capital of York Science Park Limited which is registered in England and is engaged in property development. In the opinion of the Directors, the value of the company's investments in its associates are not less than the amount at which they are stated in the balance sheet.

Group accounts are not submitted because the company is itself a wholly owned subsidiary undertaking of another company registered in England.

7 CALLED UP SHARE CAPITAL

| | Authorised | Allotted, called up and fully paid |
|---|------------------|--|
| | £ | £ |
| At 24 December 2004 and 24 December 2003 | | |
| 2,950,000 ordinary shares at £1 each | 2,950,000 | 2,947,663 |
| 50,000 preference shares at £1 each | 50,000 | 50,000 |
| | <u>3,000,000</u> | <u>2,997,663</u> |

8 DEFERRED TAXATION

| | £ |
|--------------------------------|-------------------|
| Balance as at 25 December 2003 | 390,000 |
| | <u> </u> |
| Balance as at 24 December 2004 | <u>390,000</u> |

The deferred tax balance is included within other debtors and consists primarily of short term timing differences.

9 PARENT UNDERTAKING

The results of the company are included in the consolidated accounts of The Peninsular and Oriental Steam Navigation Company, its ultimate parent undertaking, a company incorporated by Royal Charter and therefore not registered, copies of whose accounts of can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.