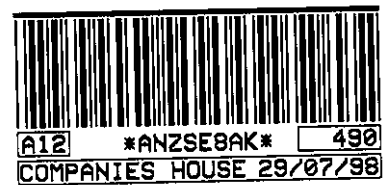


Towbar Properties Limited

REGISTERED NUMBER : 1110838

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1997



Towbar Properties Limited

REPORT OF THE DIRECTORS

The directors present their annual report and the accounts of the Company for the year ended 31 December 1997.

The Company did not trade during the year.

The directors during the year were:

R M Gradon
N J Monteith
M Owen

According to notifications received by the Company relating to the interests of the directors and their families in the share capital and debentures of group companies, there were the following interests in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

| | Deferred Stock | | | Deferred Stock under option | | |
|--------------|----------------|--------|--------|-----------------------------|----------------------|--------|
| | 1997 | 1996 | | Granted in year | Exercised in year | |
| R M Gradon | 10,107 | 5,272 | 63,284 | 3,330 | - | 59,954 |
| N J Monteith | 3,716 | 2,460 | 24,903 | - | 884 | 25,787 |
| M Owen | 15,443 | 11,380 | 6,029 | - | 3,083 | 9,112 |

In addition M Owen had an interest in £600 5.5% concessionary stock, at 31 December 1997 and 1996.

R M Gradon is a member of the P&O Long Term Incentive Plan and on 27 March 1998, under the scheme, he was awarded £14,764 nominal of deferred stock which is receivable after a retention period of two years.

79 Pall Mall
London SW1Y 5EJ
6 July 1998

On behalf of the Board



M OWEN
Director

Towbar Properties Limited

BALANCE SHEET AT 31 DECEMBER 1997

| | Note | 31 Dec 1997 £ | 31 Dec 1996 £ |
|--|------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash at bank | | 100 | 100 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 2 | 1,000 | 1,000 |
| Share premium account | | - | - |
| Other reserves | | - | - |
| Capital reserve | | (908,581) | (908,581) |
| Profit and loss account | | (243,152,340) | (243,152,340) |
| Equity shareholders' funds | | (244,059,921) | (244,059,921) |
| Creditors (due within one year) | | | |
| Amount owed to fellow subsidiary | | 12,689,611 | 12,689,611 |
| Loans | 3 | 124,000,000 | 124,000,000 |
| Accrued interest payable | 3 | 107,370,410 | 107,370,410 |
| | | 100 | 100 |

Within the meaning of Section 250 of the Companies Act 1985 the Company was dormant throughout the year.

The financial statements were approved by the Board on 6 July 1998 and were signed on its behalf by N J Monteith.



N J MONTEITH
Director

NOTES

- 1 These financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The company has not traded during the year nor the preceding year and thus no profit and loss account has been prepared.
- 2 Share capital, authorised, allotted, called up and fully paid at 31 December 1997 and 1996 was:

| | Authorised £ | Called up £ |
|---------------------------------|-----------------|----------------|
| 'A' Ordinary shares of £ 1 each | 750 | 750 |
| 'B' Ordinary shares of £ 1 each | 250 | 250 |

NOTES (continued)

- 3 The unsecured loan notes, repayable on 24 March 1987 were not repaid at that date. Interest payable thereon, at the same rate of interest has been charged to 31 December 1989; no interest has been charged for the year ended 31 December 1997 (1996 - nil).
- 4 The Company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.