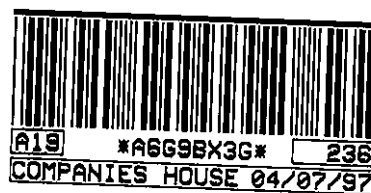


CHELSEA HARBOUR INVESTMENTS LIMITED

REGISTERED NUMBER 2303667

DIRECTORS' REPORT AND ACCOUNTS  
24 DECEMBER 1996  
-----



**CHELSEA HARBOUR INVESTMENTS LIMITED**

**REPORT OF THE DIRECTORS**

The directors present their annual report and accounts of the company for the year ended 24 December 1996.

**Principal activity and review of business:**

The company's principal activity is property investment although the company held no properties at the balance sheet date. The company's accounts for the year summarise the property and other income, and property movements.

Where appropriate, movements on share capital, reserves and fixed assets are set out in the accounts.

**Property values:**

The company's policy in relation to property valuations is set out under the heading 'Properties' in the accounting policies.

**Directors and directors' interests:**

The directors during the year were:

Sir Bruce MacPhail (resigned 23 December 1996)

Mr I G H Barnett (resigned 23 December 1996)

Mr R G Ferguson

Mr R A Knight

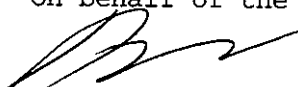
Mr A A Preiskel

The other 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.

247 Tottenham Court Road  
LONDON W1P 0HH

1 July 1997

On behalf of the Board



A A PREISKEL  
Director

CHELSEA HARBOUR INVESTMENTS LIMITED

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, 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.

**REPORT OF THE AUDITORS TO THE MEMBERS OF**  
**CHELSEA HARBOUR INVESTMENTS LIMITED**

We have audited the accounts on pages 4 to 8.

**Respective responsibilities of directors and auditors**

As described on page 2 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of 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 1996 and of its profit 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 Auditors

London

1 July 1997

CHELSEA HARBOUR INVESTMENTS LIMITEDPROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 24 DECEMBER 1996

|  | <u>Year ended</u><br><u>24 December 1996</u><br>£ | <u>Year ended</u><br><u>24 December 1995</u><br>£ |
|--|---|---|
| <b><u>NOTES</u></b>                                    |   |   |
| Rent receivable  | -   | 111,519   |
| Property outgoings                                     | -   | (54,443)  |
| Operating profit                                       | -   | 57,076  |
| Loss on sales of properties<br>held as fixed assets    | -   | (36,442)  |
| 2 Profit on ordinary activities<br>before taxation     | -   | 20,634  |
| 3 Taxation on profit on ordinary<br>activities         | 695   | (34,824)  |
| Profit/(loss) on ordinary<br>activities after taxation | 695   | (14,190)  |
| BALANCE BROUGHT FORWARD                                | 489,857   | 467,605   |
| Transfer from revaluation reserve                      | -   | 328,875   |
| Transfer to other reserves                             | -   | (292,433)   |
| BALANCE CARRIED FORWARD                                | 490,552   | 489,857   |

All turnover and operating profits are attributable to continuing operations.

CHELSEA HARBOUR INVESTMENTS LIMITEDBALANCE SHEET AT 24 DECEMBER 1996NOTES

|   | <u>24 December 1996</u> |                | <u>24 December 1995</u> |                |
|---|-------------------------|----------------|-------------------------|----------------|
|   | £                       | £              | £                       | £              |
| <b>CURRENT ASSETS</b>                         |                         |                |                         |                |
| Debtors:                                      |                         |                |                         |                |
| Amount owed by fellow subsidiary undertakings |                         | 652,816        |                         | 671,121        |
|   |                         | <u>652,272</u> |                         | <u>671,121</u> |
| <b>CAPITAL AND RESERVES</b>                   |                         |                |                         |                |
| 4 Called up share capital                     |                         | 2              |                         | 2              |
| Other reserves                                |                         | 162,262        |                         | 162,262        |
| Profit and loss account                       |                         | 490,552        |                         | 489,857        |
| Equity shareholders' funds                    |                         | <u>652,816</u> |                         | <u>652,121</u> |
| Taxation                                      |                         | -              |                         | 19,000         |
|   |                         | <u>652,816</u> |                         | <u>671,121</u> |

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



A A PREISKEL



R A KNIGHT

1 July 1997

CHELSEA HARBOUR INVESTMENTS LIMITEDSTATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

|   | <u>Year ended</u><br><u>24 December 1996</u><br>£ | <u>Year ended</u><br><u>24 December 1995</u><br>£ |
|---|---|---|
| Profit/(Loss) for the financial year                                | 695   | (14,190)  |
| Total recognised gains and losses<br>relating to the financial year | <u>695</u>  | <u>(14,190)</u>                                   |

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|                                   | <u>Year ended</u><br><u>24 December 1996</u><br>£ | <u>Year ended</u><br><u>24 December 1995</u><br>£ |
|-----------------------------------|---|---|
| Total recognised gains and losses | 695   | (14,190)  |
| Opening shareholders' funds       | 652,121   | 666,311   |
| Closing shareholders' funds       | <u>652,816</u>                                    | <u>652,121</u>                                    |

NOTE OF HISTORICAL COST PROFITS AND LOSSES

|  | <u>Year ended</u><br><u>24 December 1996</u><br>£ | <u>Year ended</u><br><u>24 December 1995</u><br>£ |
|--|---|---|
| (Loss)/Profit on ordinary activities<br>before taxation                      | -   | 20,634  |
| Realisation of property valuation<br>surpluses of prior years                | -   | 328,875   |
| Historical cost (loss)/profit on<br>ordinary activities before taxation      | <u>-</u>  | <u>349,509</u>                                    |
| Historical cost profit for the year<br>retained after taxation and dividends | <u>695</u>  | <u>314,685</u>                                    |

**CHELSEA HARBOUR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS AT 24 DECEMBER 1996**

**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 on the historical cost basis and in accordance with applicable United Kingdom accounting standards, and with the Companies Act 1985 .

**Cash Flow Statement**

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

**Capital Profits and Charges**

Under the company's memorandum of association, realised capital profits are not available for distribution and accordingly an amount equivalent to the net sum is transferred to other reserves.

**2. 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 included in the accounts of the parent company.

**3. TAXATION**

|                               | <u>24 December 1996</u> | <u>24 December 1995</u> |
|-------------------------------|-------------------------|-------------------------|
|                               | £                       | £                       |
| Current year:                 |                         |                         |
| UK Corporation tax at 33%     |                         |                         |
| (1995: 33%) on the profit for |                         |                         |
| the year                      | -                       | (19,000)                |
| Prior year adjustment         | 695                     | (15,824)                |
|                               | <hr/>                   | <hr/>                   |
|                               | 695                     | (34,824)                |
|                               | <hr/>                   | <hr/>                   |



CHELSEA HARBOUR INVESTMENTS LIMITEDNOTES TO THE ACCOUNTS AT 24 DECEMBER 1996

(Continued)

## 4. CALLED UP SHARE CAPITAL

|   | <u>Authorised</u> | <u>Allotted<br/>called up and<br/>fully paid</u> |
|---|-------------------|--|
|   | £                 | £  |
| At 24 December 1996 and<br>25 December 1995 |                   |  |
| Ordinary shares at £1 each                  | 1,000             | 2  |
|   | <u>          </u> | <u>          </u>                                |

## 5. PARENT UNDERTAKINGS

The results of the company are included in the consolidated accounts of The Peninsular and Oriental Steam Navigation Company, its ultimate parent undertaking, and P&O Property Holdings Limited, its intermediate parent undertaking, companies registered in England, copies of the accounts of which can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.