

STERLING GUARANTEE SERVICES LIMITED

REGISTERED NUMBER : 768472

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2001



STERLING GUARANTEE SERVICES LIMITEDREPORT OF THE DIRECTORS

The directors present their annual report and accounts of the Company for the year ended 31 December 2001.

Principal activity and review of business:

The Company's principal activity is share investment. The results for the year, movements on reserves and on fixed assets are set out in the accounts. The Directors do not recommend payment of a dividend. (2000 £nil)

Directors and directors' interests:

The directors during the year were:

R M Gradon

N J Monteith

J M Laver (Resigned 20th April 2001)

S Scott (Appointed 20th April 2001)

On 31st May 2002 N J Monteith resigned and P A Walker was appointed a director of the Company.

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		
	2001	2000		Granted in year	Exercised in year	2000
N J Monteith	17,036+	7,105	195,618	73,189	-	122,429
S Scott	60	60*	34,148	16,059	-	18,089*

*at/from date of appointment.

+ Of this £12,238 nominal of deferred stock is held under the rules of the P&O Deferred Bonus & Co-Investment Matching Plan full details of which are disclosed in the directors' report of the Company's ultimate holding company, The Peninsular and Oriental Steam Navigation Company. £8,406 nominal of deferred stock is held as a Stock Award/Deferred Stock Bonus Award granted on 15 March 2001 and £3,832 nominal of deferred stock is held as an Investment Stock award.


R M Gradon is a director of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company, of which this company is a wholly owned subsidiary. His interests in shares and debentures of group companies and of his awards under the P&O Deferred Bonus and Co-Investment Matching Plan are disclosed in the directors' report of the Company's ultimate holding company, The Peninsular and Oriental Steam Navigation Company.

Auditors

Under 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.

79 Pall Mall
London SW1Y 5EJ
18 October 2002

On behalf of the Board


S. Scott
Secretary

STERLING GUARANTEE SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the independent auditors on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the accounts.

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 the accounts on pages 4 to 9, the directors are required to select appropriate accounting policies and then apply 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 accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors 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 INDEPENDENT AUDITORS TO THE MEMBERS OF

STERLING GUARANTEE SERVICES LIMITED

We have audited the financial statements on pages 4 to 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

London
18 October 2002

KPMG Audit Plc
Registered Auditor
Chartered Accountants

STERLING GUARANTEE SERVICES LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £	2000 £
Income from fixed asset investments		-	13
Profit/(loss) on disposal of fixed asset investments		9	(164)
Movement in provision against fixed asset investments		(12)	70
Dividends receivable		12	-
Profit/(loss) on ordinary activities before taxation	2	9	(81)
Tax on profit/(loss) on ordinary activities	3	(33,400)	-
Loss on ordinary activities after taxation		(33,391)	(81)
Profit and loss account brought forward		2,150,979	2,151,060
Profit and loss account carried forward		2,117,588	2,150,979

All of the above transactions arise from continuing operations.

STERLING GUARANTEE SERVICES LIMITEDBALANCE SHEET AT 31 DECEMBER 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Listed investments	4	318	407
Investments in Group undertakings	5	7,332,686	7,332,686
		<hr/>	<hr/>
		7,333,004	7,333,093
CURRENT ASSETS			
Amounts owed by fellow subsidiaries		5,861,805	6,053,107
CREDITORS : amounts falling due within one year			
Corporation tax		(236,457)	(394,457)
		<hr/>	<hr/>
		12,958,352	12,991,743
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	6	7,523,363	7,523,363
Share premium		3,082,707	3,082,707
Other reserves		234,694	234,694
Profit and loss account		2,117,588	2,150,979
		<hr/>	<hr/>
Equity shareholders' funds		12,958,352	12,991,743
		<hr/>	<hr/>

The accounts were approved by the Board on 18 October 2002 and signed on its behalf by P A Walker.



P A WALKER
Director

STERLING GUARANTEE SERVICES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £	2000 £
Loss for the financial year attributable to shareholders	(33,391)	(81)
	<hr/>	<hr/>
Total recognised gains and losses for the financial year	(33,391)	(81)
	<hr/> <hr/>	<hr/> <hr/>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £	2000 £
Total recognised gains and losses for the financial year	(33,391)	(81)
Shareholders' funds at the beginning of the year	12,991,743	12,991,824
	<hr/>	<hr/>
Shareholders' funds at the end of the year	12,958,352	12,991,743
	<hr/> <hr/>	<hr/> <hr/>

STERLING GUARANTEE SERVICES LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001

1 ACCOUNTING POLICIES

BASIS OF PREPARATION OF ACCOUNTS

- (i) The accounts are prepared on the historical cost basis and in accordance with applicable accounting standards, including Financial Reporting Standard 18 (Accounting policies).
- (ii) Under Financial Reporting Standard 1 (Revised), 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.
- (iii) The Company is exempt under S228 of the Companies Act 1985 from the requirement to prepare group accounts because its results are included in the consolidated accounts of its parent company, The Peninsular and Oriental Steam Navigation Company.
- (iv) Investments are stated at cost less amounts written off for impairment.
- (v) Deferred taxation at the appropriate rate of corporation tax is provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that the reduction in the tax charge cannot be expected with reasonable probability to continue for the foreseeable future.

2 PROFIT AND LOSS ACCOUNT

- (a) The basis of charging intra group interest is agreed between the parties from time to time.
- (b) 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 companies and are dealt with in the accounts of those companies (2000 - £ nil).
- (c) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2000 - £ nil).
- (d) The Company had no employees during the year (2000 - none).

STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2001

3 TAXATION

	2001 £	2000 £
UK corporation tax		
Adjustments in respect of prior periods	(33,400)	-
	<u> </u>	<u> </u>

4 LISTED INVESTMENTS

The amounts of investments listed on a recognised stock exchange are:

	2001	2000
	£	£
Cost at 31 December 2000		741
Investments written off		(171)
Investments sold		(18)
		<u> </u>
Cost at 31 December 2001		552
		<u> </u>
Provision at 31 December 2000		(334)
Release of provision made in prior years		100
		<u> </u>
Provision at 31 December 2001		(234)
		<u> </u>
Net Book Value at 31 December	318	407
	<u> </u>	<u> </u>
Market Value at 31 December	1,725	1,852

STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2001

5 INVESTMENTS IN GROUP UNDERTAKINGS

£

Cost at 31 December 2000 and at 31 December 2001	7,332,686
--	-----------

The company holds 7,332,686 £1 preference shares in Patchstart Limited.

6 CALLED UP SHARE CAPITAL

	Authorised	Allotted, called up and fully paid
At 31 December 2001 and 2000		
Ordinary shares of 25p each	10,000,000	7,523,363
	<hr/>	<hr/>
Number of shares	40,000,000	30,093,452
	<hr/>	<hr/>

7 ULTIMATE HOLDING COMPANY

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.

The Company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company and as such, the Company has taken advantage of the exemption available under Financial Reporting Standard 8, not to disclose transactions with other group companies.