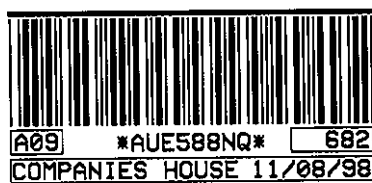


STERLING GUARANTEE SERVICES LIMITED

REGISTERED NUMBER : 768472

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1997



STERLING GUARANTEE SERVICES LIMITED

REPORT OF THE DIRECTORS

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

Principal activity and review of business:

The Company's results for the year, dividend proposed, movements on reserves and movements on fixed assets are set out in the accounts.

Directors and directors' interests:

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	1997	Granted in year	Exercised in year	1996
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.

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

21 July 1998

On behalf of the Board



M OWEN
Director

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 auditors on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the 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 8, 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 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 AUDITORS TO THE MEMBERS OF

STERLING GUARANTEE SERVICES 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 the 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 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 affairs of the Company as at 31 December 1997 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

21 July 1998

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

STERLING GUARANTEE SERVICES LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

		Year ended 31 Dec 1997 £	Year ended 31 Dec 1996 £
Income from investments		21	21
Provision against fixed asset investments		(193)	(90)
Intragroup interest receivable		-	580,000
(Loss)/profit on ordinary activities before taxation	Note 3	(172)	579,931
Taxation thereon	Note 4	(3)	(191,004)
Retained (loss)/profit for the financial year		(175)	388,927
Profit and loss account brought forward		2,071,052	1,682,125
Profit and loss account carried forward		2,070,877	2,071,052

All of the above transactions arise from continuing operations.

STERLING GUARANTEE SERVICES LIMITEDBALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Listed investments	5	663	856
CURRENT ASSETS			
Amounts owed by fellow subsidiaries		13,101,978	13,101,960
CREDITORS			
Corporation tax		(191,000)	(191,000)
		<hr/>	<hr/>
		12,911,641	12,911,816
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	2	7,523,363	7,523,363
Share premium		3,082,707	3,082,707
Other reserves		234,694	234,694
Profit and loss account	3	2,070,877	2,071,052
		<hr/>	<hr/>
Equity shareholders' funds		12,911,641	12,911,816
		<hr/>	<hr/>

The accounts were approved by the Board on 21 July 1998 and signed on its behalf by N J Monteith.



N J MONTEITH
Director

STERLING GUARANTEE SERVICES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1997

	Year ended 31 Dec 1997 £	Year ended 31 Dec 1996 £
Retained (loss)/profit for the financial year	(175)	388,927
Total recognised gains and losses for the financial year	<u>(175)</u>	<u>388,927</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1997

	Year ended 31 Dec 1997 £	Year ended 31 Dec 1996 £
Total recognised gains and losses for the financial year	(175)	388,927
Shareholders' funds at the beginning of the year	<u>12,911,816</u>	<u>12,522,889</u>
Shareholders' funds at the end of the year	<u>12,911,641</u>	<u>12,911,816</u>

STERLING GUARANTEE SERVICES LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER 1997

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.
- (ii) Under Financial Reporting Standard 1, 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.

2 CALLED UP SHARE CAPITAL

	<u>Authorised</u>	<u>Allotted, called up and fully paid</u>
At 31 December 1997 and 1996		
Ordinary shares of 25p each	£10,000,000	£7,523,363
	<hr/>	<hr/>
Number of shares	40,000,000	30,093,452
	<hr/>	<hr/>

3 PROFIT AND LOSS ACCOUNT

- (a) The basis of charging intra group interest is agreed between the parties from time to time (1996 - nil).
- (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 (1996 - nil).
- (c) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company.
- (d) The Company had no employees during the year (1996 - none).

STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 1996

4 TAXATION

	1997	1996
	£	£
Corporation Tax at 31.5% (1996 - 33%)	-	191,000
Tax credits on franked investment income	3	4
	<hr/>	<hr/>
	3	191,004
	<hr/>	<hr/>

5 INVESTMENTS

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

	£
Cost at 31 December 1996 & 1997	946
	<hr/>
Provision at 31 December 1996	(90)
Provision made in year	(193)
	<hr/>
Provision at 31 December 1997	(283)
	<hr/>
Net Book Value at 31 December 1997	663
	<hr/>
Net Book Value at 31 December 1996	856
	<hr/>

6 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.