

STERLING GUARANTEE SERVICES LIMITED

REGISTERED NUMBER : 768472

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1999



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 1999.

Principal activity and review of business:

The Company's results for the year, movements on reserves and movements on fixed assets are set out in the accounts. The Directors do not recommend payment of a dividend. (1998 £389,000)

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		
	1999	1998		Granted in year	Exercised in year	1998
N J Monteith	4,493	4,085	27,778	5,800	-	21,978
M Owen	17,303	16,545	11,442	3,800	-	7,642

In addition M Owen had an interest in £600 (1998 £600) 5.5% concessionary stock and £1 (1998 £nil) 6.75% convertible stock at 31 December 1999.

The interests of R M Gradon in shares and debentures of group companies and of awards under the P&O Long Term Incentive Plan are disclosed in the directors' report of the Company's ultimate holding company, The Peninsular and Oriental Steam Navigation Company.

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

19 October 2000

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 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.

AUDITORS' REPORT 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. 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

London  
19 October 2000

KPMG Audit Plc  
Registered Auditor  
Chartered Accountants

STERLING GUARANTEE SERVICES LIMITEDPROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 1999

		Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
Income from investments		20	113
Profit on sale of investments		48	-
Provision against fixed asset investments		(115)	(6)
Interest receivable		672,586	-
Profit on ordinary activities before taxation	Note 3	672,539	107
Taxation thereon	Note 4	(203,459)	(4)
Profit for the financial year attributable to shareholders		469,080	103
Dividend		-	(389,000)
Retained profit/(loss) for the financial year		469,080	(388,897)
Profit and loss account brought forward		1,681,980	2,070,877
Profit and loss account carried forward		2,151,060	1,681,980

All of the above transactions arise from continuing operations.

STERLING GUARANTEE SERVICES LIMITEDBALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £	1998 £
<b>FIXED ASSETS</b>			
Listed investments	5	516	647
Investments in Group undertakings	6	7,332,686	-
		<hr/>	<hr/>
		7,333,202	647
<b>CURRENT ASSETS</b>			
Amounts owed by fellow subsidiaries		6,053,079	12,713,097
<b>CREDITORS</b>			
Corporation tax		(394,457)	(191,000)
		<hr/>	<hr/>
		12,991,824	12,522,744
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
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	2,151,060	1,681,980
		<hr/>	<hr/>
Equity shareholders' funds		12,991,824	12,522,744
		<hr/>	<hr/>

The accounts were approved by the Board on 19 October 2000 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 1999

	Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
Profit/(loss) for the financial year attributable to shareholders	469,080	103
Total recognised gains and losses for the financial year	<u>469,080</u>	<u>103</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'  
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1999

	Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
Total recognised gains and losses for the financial year	469,080	103
Dividend	-	(389,000)
Shareholders' funds at the beginning of the year	<u>12,522,744</u>	<u>12,911,641</u>
Shareholders' funds at the end of the year	<u>12,991,824</u>	<u>12,522,744</u>

STERLING GUARANTEE SERVICES LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER 1999

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.
- (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.

2 CALLED UP SHARE CAPITAL

	<u>Authorised</u>	<u>Allotted, called up and fully paid</u>
At 31 December 1999 and 1998		
Ordinary shares of 25p each	£10,000,000	£7,523,363
	<hr/>	<hr/>
Number of shares	40,000,000	30,093,452
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3 PROFIT AND LOSS ACCOUNT

- (a) The basis of charging intra group interest is agreed between the parties from time to time (1998 - 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 (1998 - nil).
- (c) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company. (1998 £nil)
- (d) The Company had no employees during the year (1998 - none).



STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 1999

## 4 TAXATION

	1999 £	1998 £
Corporation tax at 30.25%	203,459	-
Tax credits on franked investment income	-	4
	<hr/>	<hr/>
	203,459	4
	<hr/>	<hr/>

## 5 LISTED INVESTMENTS

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

	£
Cost at 31 December 1998	936
Investments written off	(16)
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Cost at 31 December 1999	920
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Provision at 31 December 1998	(289)
Provision made in year	(115)
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Provision at 31 December 1999	(404)
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Net Book Value at 31 December 1999	516
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Net Book Value at 31 December 1998	647
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STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 1999

## 6 INVESTMENTS IN GROUP UNDERTAKINGS

	£
Cost at 31 December 1998	-
Additions	7,332,686
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Cost at 31 December 1999	7,332,686
	<hr/> <hr/>

During the year the Company acquired 7,332,686 £1 preference shares in Patchstart Limited.

## 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.