

STERLING GUARANTEE SERVICES LIMITED

REGISTERED NUMBER : 768472

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2002



STERLING GUARANTEE SERVICES LIMITEDREPORT OF THE DIRECTORS

The directors present their annual report and accounts of the Company for the year ended 31 December 2002.

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. (2001 £nil)

Directors and directors' interests:

The directors during the year were :

R M Gradon

S Scott

N J Monteith (Resigned 31st May 2002)

P A Walker (Appointed 31st May 2002)

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		
	2002	2001	2002	Granted in year	Exercised in year	2001
PA Walker	1,885	1,877*	89,760	89,760	-	.*
S Scott	60	60	53,196	19,048	-	34,148


*at/from date of appointment.

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 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
1 August 2003

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.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London
1 August 2003


KPMG Audit Plc
Registered Auditor
Chartered Accountants

STERLING GUARANTEE SERVICES LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

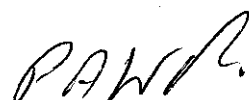
	Note	2002 £	2001 £
Profit on disposal of fixed asset investments		-	9
Loss on write off of fixed asset investments		(1)	-
Movement in provision against fixed asset investments		(39)	(12)
Dividends receivable		28	12
<hr/>			
(Loss)/profit on ordinary activities before taxation	2	(12)	9
Tax on (loss)/profit on ordinary activities	3	-	(33,400)
<hr/>			
Loss on ordinary activities after taxation		(12)	(33,391)
Profit and loss account brought forward		2,117,588	2,150,979
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Profit and loss account carried forward		2,117,576	2,117,588
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All of the above transactions arise from continuing operations. The Company has no recognized gains or losses other than those detailed above.

STERLING GUARANTEE SERVICES LIMITEDBALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Listed investments	4	278	318
Investments in Group undertakings	5	7,332,686	7,332,686
		<hr/>	<hr/>
		7,332,964	7,333,004
CURRENT ASSETS			
DEBTORS: Amounts owed by fellow subsidiaries		5,861,833	5,861,805
CREDITORS : amounts falling due within one year			
Corporation tax		(236,457)	(236,457)
		<hr/>	<hr/>
NET CURRENT ASSETS		5,625,376	5,625,348
		<hr/>	<hr/>
NET ASSETS		12,958,340	12,958,352
		<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		2,117,576	2,117,588
		<hr/>	<hr/>
Equity shareholders' funds		12,958,340	12,958,352
		<hr/>	<hr/>

The accounts were approved by the Board on 1 August 2003 and signed on its behalf by P A Walker.



P A WALKER
Director

STERLING GUARANTEE SERVICES LIMITEDRECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £	2001 £
Total recognised gains and losses for the financial year	(12)	(33,391)
Shareholders' funds at the beginning of the year	12,958,352	12,991,743
	<hr/>	<hr/>
Shareholders' funds at the end of the year	12,958,340	12,958,352
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STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2002**1 ACCOUNTING POLICIES***Basis of preparation of accounts*

The accounts have been prepared on the historical cost basis and in accordance with the Companies Act 1985.

The accounts have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 19 (Deferred tax), which has been adopted for the first time in these accounts. No prior year adjustment has resulted from the adoption of this standard.

The accounts have been prepared on a going concern basis.

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.

As the Company is a wholly owned subsidiary of the Peninsular and Oriental Steam Navigation Company, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of the Peninsular and Oriental Steam Navigation Company within which this company is included can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3UZ.

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

Investments

Investments in subsidiary undertakings are stated at cost, less amounts written off for impairment in value. In the opinion of the directors, the investments in subsidiaries are worth at least their book value.

Deferred tax

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet dates except as otherwise required by Financial Reporting Standard 19 (Deferred tax).

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 (2001 - £ nil).
- (c) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2001 - £ nil).
- (d) The Company had no employees during the year (2001 - none).

STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2002

3 TAXATION

	2002	2001
	£	£
UK corporation tax		
Adjustments in respect of prior periods	-	(33,400)
	<hr/>	<hr/>

The current taxation credit is lower than (2001 charge is higher than) the standard rate of corporation tax in the UK of 30% (2001 30%). The differences are explained below.

	2002	2001
	£	£
(Loss)/profit on ordinary activities before taxation	(12)	9
	<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2001 30%)	(4)	3
Effects of:		
UK expenses not deductible and other UK permanent adjustments	4	(3)
Adjustments in respect of prior periods		33,400
	<hr/>	<hr/>
Current taxation charge for the period	-	33,400
	<hr/>	<hr/>

STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2002

4 LISTED INVESTMENTS

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

	£	
Cost at 31 December 2001	552	
Investments written off	(1)	
	<hr/>	
Cost at 31 December 2002	551	
	<hr/>	
Provision at 31 December 2001	(234)	
Provision made in year	(39)	
	<hr/>	
Provision at 31 December 2002	(273)	
	<hr/>	
	2002	2001
	£	£
Net Book Value at 31 December	278	318
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Market Value at 31 December	1,283	1,725
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STERLING GUARANTEE SERVICES LIMITEDNOTES TO THE ACCOUNTS AT 31 DECEMBER 2002

5 INVESTMENTS IN GROUP UNDERTAKINGS

£

Cost at 31 December 2002 and at 31 December 2001	7,332,686
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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 2002 and 2001		
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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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.