

STERLING GUARANTEE TRUST LIMITED

REGISTERED NUMBER: 108220

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2001



REPORT OF THE DIRECTORS

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

Principal activities and review of business

The Company is the holding company for a property investment and development group. The results for the period are set out in the profit and loss account on page 4 and in the notes to the accounts. No significant change to its business is expected in the forthcoming year. Where appropriate, movements in share capital, reserves and fixed assets and details of paid and proposed dividends are set out in the accounts.

Dividend

The directors do not recommend the payment of a dividend (year ended 31 December 2000: £75,166,409).

Directors and directors' interests:

The directors during the year were :

R M Gradon

N J Monteith

S Scott (Appointed 20th April 2001)

J M Laver (Resigned 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			2000
	2001	2000	2001	Granted in year	Exercised in year	
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.

On behalf of the Board

79 Pall Mall
London SW1Y 5EJ
18 October 2002


S. Scott
Secretary

DIRECTOR'S 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 10, 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 TRUST LIMITED

We have audited the financial statements on pages 4 to 10.

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.

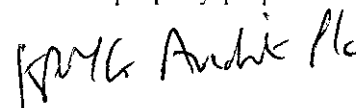
Basis of opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



London
18 October 2002

KPMG Audit Plc
Registered Auditor
Chartered Accountants

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

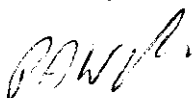
	Note	2001 £'000	2000 £'000
Provision against investment in group undertakings		(630)	-
Income from shares in subsidiary undertakings		-	52,166
Interest receivable	2	2	2
Interest payable to group companies	3	-	(7)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	4	(628)	52,161
Taxation	5	17	-
		<hr/>	<hr/>
Profit on ordinary activities after taxation		(611)	52,161
Dividends paid and proposed		-	(75,166)
		<hr/>	<hr/>
Retained profit/(loss) for the financial year	9	(611)	(23,005)
		<hr/>	<hr/>

All the above transactions relate to continuing business activities.

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Investments:			
Investments in group undertakings	6	120,302	120,932
Investment in associate	7	245	245
		<u>120,547</u>	<u>121,177</u>
CURRENT ASSETS			
Debtors:			
Amounts owed by fellow subsidiaries		199,127	198,556
Other debtors		-	669
		<u>199,127</u>	<u>199,225</u>
Short term deposits and bank balances		32	30
Creditors falling due within one year	8	(8,761)	(8,876)
NET CURRENT ASSETS		<u>190,398</u>	<u>190,379</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>310,945</u>	<u>311,556</u>
Creditors due after one year	8	(88,866)	(88,866)
TOTAL NET ASSETS		<u>222,079</u>	<u>222,690</u>
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	9	101,394	101,394
Share premium account	10	98,626	98,626
Capital redemption reserve	10	15,083	15,083
Capital reserve	10	6,848	6,848
Profit and loss account	10	128	739
		<u>222,079</u>	<u>222,690</u>
Equity shareholders' funds		<u>222,079</u>	<u>222,690</u>

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



P A WALKER
Director

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

	2001 £'000	2000 £'000
Profit for the financial year attributable to shareholders	(611)	52,161
Total recognised gains and losses for the financial year	<u>(611)</u>	<u>52,161</u>

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

	2001 £'000	2000 £'000
Total recognised gains and losses for the financial year	(611)	52,161
Dividends	-	(75,166)
Shareholders' funds at the beginning of the year	<u>(611)</u> 222,690	<u>(23,005)</u> 245,695
Shareholders' funds at the end of the year	<u>222,079</u>	<u>222,690</u>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001

1 ACCOUNTING POLICIES

The principal accounting policies that have been adopted in the preparation of these accounts are given below.

- a) The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 18 (Accounting Policies)
- b) 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.
- c) 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.
- d) Capital profits realised less capital charges are shown in the profit and loss account. However, under the Company's Memorandum of Association such realised capital profits are not available for distribution and accordingly an amount equivalent to the net sum is transferred to capital reserves.
- e) Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies have been expressed in sterling at rates ruling at the balance sheet date. Exchange differences arising from the retranslation of foreign currency investments and related loans are taken to reserves. Other exchange differences are taken to the profit and loss account.
- f) The investments are stated at cost, less amounts written off for impairment in value.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (cont'd)

2 INTEREST RECEIVABLE

	2001 £'000	2000 £'000
Group companies	-	-
Other	2	2
	<hr/>	<hr/>
	2	2
	<hr/>	<hr/>

The basis of charging interest on group balances is agreed between the parties from time to time.

3 INTEREST PAYABLE

	2001 £'000	2000 £'000
Other	-	7
	<hr/>	<hr/>
	-	7
	<hr/>	<hr/>

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

- i The Company had no employees during the year (2000 – none).
- ii Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (2000 – £nil).
- iii 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).

5 TAXATION

The taxation charge on ordinary activities is as follows:

	2001 £'000	2000 £'000
U K current year corporation tax at 30%	-	1
Adjustments in respect of prior periods	17	-
Tax on franked investment income	-	(1)
	<hr/>	<hr/>
	17	-
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (cont'd)

6 INVESTMENTS IN GROUP UNDERTAKINGS

Shares in group undertakings:	Cost £'000	Provision £'000	Cost £'000
At 31 December 2001 and 2000	147,236	(26,304)	120,932
Amounts provided in the period	-	(630)	(630)
	<hr/>	<hr/>	<hr/>
At 31 December 2001 and 2000	147,236	(26,934)	120,302

The principal subsidiary companies at 31 December 2001, all of which are wholly owned and incorporated in England, are:-

Sterling Guarantee Services Limited
 Berham Property Company Limited
 Glennifer Finance Corporation Limited
 P&O Finance PLC
 The P&O Services Group Limited

7 INVESTMENT IN ASSOCIATE

	2001 £'000	2000 £'000
Cost of investment	245	245
	<hr/>	<hr/>

The investment represents a 49% holding in the ordinary share capital of the dormant company Mervest Sloane Limited, a company incorporated in Great Britain and registered in England.

8 CREDITORS

	2001 £'000	2000 £'000
Amounts falling due within one year:		
Other creditors including taxation and social security	8,761	8,876
Amounts falling due after one year:		
Amount due to ultimate holding company	88,866	88,866
	<hr/>	<hr/>
Total creditors	97,627	97,742
	<hr/>	<hr/>

The amount due to the ultimate holding company has no fixed repayment date. The basis of charging interest is agreed between the parties from time to time. At 31 December 2001 the rate of interest was nil (2000 - nil).

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (Cont'd)

9 CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised:		
120,000,000 Ordinary shares of £1 each	120,000	120,000
Allotted, called up and fully paid:		
101,394,309 Ordinary shares of £1 each	101,394	101,394

10 RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	98,626	15,083	6,848	739	121,296
Retained profit for the year	-	-	-	(611)	(611)
At 31 December 2001	98,626	15,083	6,848	128	120,685

11 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.