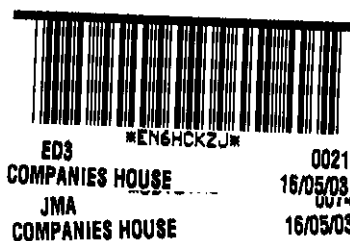


SOVEREIGN HOLDINGS PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2002



Registration Number: 2504239

Directors' report and financial statements

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List of directors, advisers and other information

Directors

R.L. Banks (appointed 2 September 2002)
M.W. Evans
C. R. Morley (appointed 1 April 2003)
A.B. Swann
R.L. Towers

Secretary

I.A. Sinclair-Ford

Registered Office

Carlton Park
Narborough
Leicester

Auditor

Deloitte & Touche
Manchester

Bankers

Girobank plc
Bridle Road
Bootle
Merseyside
GIR 0AA

Directors' Report

The directors present their report and financial statements for the year ended 31st December 2002.

Principal Activities

The principal activity of the Company during the year continued to be that of the holding company of Sovereign Finance plc and its subsidiaries. The principal activity of the Group is that of lessors and financiers.

Review of Developments and Future Prospects

No significant changes to the Company's activities are envisaged.

Results and Dividend

The profit on ordinary activities after taxation for the year amounted to £7,817,000 (2001: £12,172,000).

A final dividend of £7,800,000 has been proposed (2001: £12,280,000). No further dividends are proposed.

A retained profit of £17,000 (2001 loss of: £108,000) was transferred to reserves.

Directors and their interests

The directors who served during the year were as follows:

R.L. Banks (Appointed 2nd September 2002)
M.W. Evans
A.B. Swann
C.S. Taylor (Resigned 2nd September 2002)
R. L. Towers

On 1 April 2003, C R Morley was appointed as a director.

None of the Directors hold any beneficial interests in shares or debentures of the Company. The beneficial interests of the Directors in Ordinary shares of the parent undertaking, Alliance & Leicester plc, were:-

Fully Paid Shares of 50p each		
Directors	At 1 st January 2002 (or at date of appointment if later)	At 31 st December 2002
R. L. Banks	See Alliance & Leicester Plc accounts	
M. W. Evans	938	1,296
A. B. Swann	1,945	2,605
R. L. Towers	1,244	1,648

Directors' Report (continued)

Options to acquire shares

In addition, the Directors have options to subscribe for such shares granted under the terms of Alliance & Leicester plc Share Option Schemes: -

	Number of Options				Exercise Price	Exercise period
	During the Year					
Directors	At 01.01.02 (or date of appointment if later)	Granted	Exercised	At 31.12.02		
R.L. Banks						
See Alliance & Leicester Plc accounts						
M.W. Evans	5,637	-	-	5,637	£5.10(i)	17.02.03-17.02.10
	2,658	-	-	2,658	£3.644(iii)	01.11.03-01.05.04
	186	-	-	186	£6.70(i)	23.02.04-23.02.11
	3,684	-	-	3,684	£6.70(ii)	23.02.04-23.02.08
	4,849	-	-	4,849	£8.055(ii)	23.07.04-23.07.11
	-	2,240	-	2,240	£8.37 (ii)	12.03.05-12.03.12
	-	7,273	-	7,273	£7.95 (ii)	06.08.05-06.08.12
A.B. Swann	3,821	-	-	3,821	£7.85(i)	04.03.02-04.03.09
	3,184	-	-	3,184	£7.85(ii)	04.03.02-04.03.06
	5,998	-	-	5,998	£5.10(ii)	17.02.03-17.02.07
	11,105	-	-	11,105	£6.70(ii)	23.02.04-23.02.08
	10,172	-	-	10,172	£8.055(ii)	23.07.04-23.07.11
	2,618	-	-	2,618	£6.444(iii)	01.11.06-01.05.07
	-	4,129	-	4,129	£8.37(ii)	12.03.05-12.03.12
	-	13,755	-	13,755	£7.95(ii)	06.08.05-06.08.12
R.L. Towers	5,882	-	-	5,882	£5.10(i)	17.01.03-17.02.10
	1,176	-	-	1,176	£5.10(ii)	17.02.03-17.02.07
	2,658	-	-	2,658	£3.644(iii)	01.11.03-01.05.04
	5,335	-	-	5,335	£6.70(ii)	23.02.04-23.02.08
	4,211	-	-	4,211	£8.055(ii)	23.07.04-23.07.11
	-	2,525	-	2,525	£8.37(ii)	12.03.05-12.03.12
	-	8,662	-	8,662	£7.95(ii)	06.08.05-06.08.12

- (i) Options granted under the Alliance & Leicester plc Approved Company Share Option Scheme
- (ii) Options granted under the Alliance & Leicester plc Unapproved Company Share Option Scheme
- (iii) Options granted under the Alliance & Leicester plc Sharesave Scheme

Directors' Report (continued)

Bonus award

The directors' interests in options awarded under the deferred bonus scheme:-

Director	Bonus Year	Shares	Value of award £	Market value at date of grant £	No. of shares under option	Exercise Price £	Exercise Period
R. L. Banks		See Alliance & Leicester Plc accounts					
M. W. Evans	2001	Deferred Shares	2,497	6.785	368	Nil	15.03.04-15.03.08
	2001	Matching Shares	2,497	6.785	368	Nil	15.03.04-15.03.08
	2002	Deferred Shares	7,123	8.37	851	Nil	12.03.05-12.03.09
	2002	Matching Shares	7,123	8.37	851	Nil	12.03.05-12.03.09
A. B. Swann	2002	Deferred Shares	34,560	8.37	4129	Nil	12.03.05-12.03.09
	2002	Matching Shares	34,560	8.37	4129	Nil	12.03.05-12.03.09
R. L. Towers	2001	Deferred Shares	3,549	6.785	523	Nil	15.03.04-15.03.08
	2001	Matching Shares	3,549	6.785	523	Nil	15.03.04-15.03.08
	2002	Deferred Shares	8,805	8.37	1052	Nil	12.03.05-12.03.09
	2002	Matching Shares	8,805	8.37	1052	Nil	12.03.05-12.03.09

Neither the matching shares nor deferred share option granted are subject to a performance objective.

Creditors' Payment Policy

The Alliance & Leicester plc Group is a signatory of the DTI's Better Payment Practice Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

It is Group policy to:


- i) agree the terms of payment at the start of business with each supplier.
- ii) ensure suppliers are aware of the payment terms.
- iii) pay in accordance with any contractual and other legal obligations.

As at the year end the Company, Sovereign Holdings plc, has no trade creditors.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche be re-appointed as auditors of the company was passed at the Annual General Meeting.

On behalf of the Board


C. R. Morley
Director
9 May 2003

Statement of Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select appropriate accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company or group will continue to be in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for establishing and maintaining systems of internal control for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and any other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOVEREIGN HOLDINGS PLC

We have audited the financial statements of Sovereign Holdings plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 opinion we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester

9 May 2003

Profit and loss account
For the year ended 31st December 2002

	<u>Notes</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Other income		7,817	12,172
		—————	—————
Operating profit and profit on ordinary activities before taxation	2	7,817	12,172
Taxation on profit on ordinary activities	4	-	-
		—————	—————
Profit for the financial year		7,817	12,172
Equity dividends paid and proposed	5	(7,800)	(12,280)
		—————	—————
Retained profit/(loss) for the financial year		17	(108)
Retained profit brought forward		<u>10,062</u>	<u>10,170</u>
Retained profit carried forward		<u>10,079</u>	<u>10,062</u>

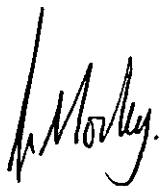
All of the above results are derived from continuing activities in the year.

All of the gains and losses for the year and the previous year have been recognised in arriving at the profit disclosed above. As a consequence, a Statement of Total Recognised Gains and Losses has not been presented.

Balance Sheet
As at 31st December 2002

	<u>Notes</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
<i>Fixed assets</i>			
Investments	6	87,697	79,880
		<hr/>	<hr/>
<i>Current assets</i>			
Debtors: amounts falling due within one year	7	5	5
Creditors: amounts falling due within one year	8	(59,429)	(51,629)
		<hr/>	<hr/>
<i>Net current liabilities</i>		(59,424)	(51,624)
		<hr/>	<hr/>
<i>Total assets less current liabilities</i>		28,273	28,256
		<hr/>	<hr/>
<i>Net assets</i>		<u>28,273</u>	<u>28,256</u>
		<hr/>	<hr/>
<i>Capital and reserves</i>			
Called up share capital	10	18,194	18,194
Profit and loss account		10,079	10,062
		<hr/>	<hr/>
<i>Equity shareholders' funds</i>	11	<u>28,273</u>	<u>28,256</u>
		<hr/>	<hr/>

The financial statements on pages 8 to 14 were approved by the Board of Directors on 9 May 2003



C. R. Morley
Director

Notes

(forming part of the financial statements)

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Accounting convention

The company prepares its accounts under the historical cost convention and in accordance with applicable UK Accounting Standards.

b) Exemption from the requirement to prepare group accounts

The company is exempt from the requirement to prepare group accounts as the company is included within the consolidated accounts of Alliance & Leicester plc. The consolidated accounts of this Group are available to the public and may be obtained from the address shown in note 12.

c) Cash flow statement

As a wholly owned subsidiary of Alliance & Leicester Plc, the company is exempt under FRS 1 (revised) 'Cash Flow Statements' from producing a cash flow statement.

d) Taxation

Deferred tax is provided using the full provision method following the company's adoption of FRS 19 'Deferred Tax'. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is calculated at rates expected to be applicable when the liability or asset crystallises. Deferred tax is provided on a non-discounted basis.

A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more than likely that there will be suitable taxable profits from which the reversal of the underlying timing differences can be recovered.

e) Related party transactions

As the company is a wholly owned subsidiary of Alliance & Leicester, the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the Group. The financial statements of Alliance & Leicester, within which this company is included, can be obtained from the address given in note 12.

f) Fixed asset investments

Fixed asset investments are held at cost less any provision for impairment.

2. Operating profit

This represents the operating profit of the company and is stated after crediting:

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Release of provision against investment	<u>7,817</u>	<u>12,172</u>

The Audit Fee is borne by Sovereign Finance plc and is disclosed in the notes to their accounts.

Notes (continued)

3. Staff costs

The company had no employees, and the directors received no remuneration in the current year nor the preceding period.

During the year no directors have exercised share options.

4. Taxation on profit on ordinary activities

Taxation on profit on ordinary activities for the year is nil (2001: nil)

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Factors affecting tax charge for the year:		
Profit on ordinary activities before taxation	<u>7,817</u>	<u>12,172</u>
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK (30% in both years)	2,345	3,652
Non taxable provision release	(2,345)	(3,652)
Total current tax charge	<u>-</u>	<u>-</u>

5. Dividends

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Final proposed – £0.429 per ordinary share (2001 – £0.675)	<u>7,800</u>	<u>12,280</u>

Notes (continued)

6. Fixed asset investments

£'000

Shares in subsidiary undertakings:

Cost

At 1st January 2002 and 31st December 2002 145,120

Provisions

At 1st January 2002 65,240

Released during the year (7,817)

At 31st December 2002 57,423

Net book value

At 31st December 2002 87,697

At 31st December 2001 79,880

The company's only subsidiary undertaking at 31 December 2002 is Sovereign Finance plc, a lessor and financier, which is wholly owned and registered in England and Wales. It has a financial year end of 31 December and its share capital consists entirely of 10p ordinary shares.

Sovereign Finance plc owns several subsidiaries. Details of the principal subsidiaries, which are registered in England and Wales, are as follows:-

	<u>Note</u>	<u>Trade</u>	<u>Financial year end</u>
Sovereign Business Finance Limited	(i)	Lessors	30th September
Sovereign Commercial Limited	(i)	Lessors	30th June
Sovereign Corporate Limited	(i)	Lessors	31st March
Sovereign Financial Services (Manchester) Ltd	(i)	Lessors	31st December
Sovereign Financial Products Ltd	(i)	Lessors	30th June
Sovereign Equipment Finance Ltd	(i)	Lessors	31st March
Sovereign Leasing Ltd	(i)	Lessors	30th September
Hansar Finance Limited	(i)	Lessors	31st December
Sovereign Finance (Remarketing & Logistics) Limited	(i)	Retail	30th June
Sovereign Asset Finance Limited	(i)	Lessors	29th March
Sovereign Leasing (Northern) Ltd	(i)	Lessors	31st December
Sovereign Ltd	(i)	Lessors	30th September
Sovereign Investment Ltd	(i)	Lessors	30th June

Note

(i) 100% of ordinary shares owned

As permitted under section 231 of the Companies Act 1985, details of the company's dormant subsidiaries are not given.

Notes (continued)

7. Debtors

Amounts falling due within one year

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Other debtors	<u>5</u>	<u>5</u>

8. Creditors

Amounts falling due within one year

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Amounts owed to group undertakings	59,427	51,627
Accruals and deferred income	<u>2</u>	<u>2</u>
	<u>59,429</u>	<u>51,629</u>

The amounts owed to group undertakings are non-interest bearing and have no fixed date of repayment.

9. Provisions for liabilities and charges

The company has no deferred tax asset or liability in the year (2001:nil)

10. Share capital

	<u>No. ('000)</u>	<u>2002</u> <u>£'000</u>	<u>No. ('000)</u>	<u>2001</u> <u>£'000</u>
<i>Authorised:</i>				
Ordinary Shares of £1 each	<u>73,944</u>	<u>73,944</u>	<u>73,944</u>	<u>73,944</u>
<i>Allotted, called up and fully paid:</i>				
Ordinary Shares of £1 each	<u>18,194</u>	<u>18,194</u>	<u>18,194</u>	<u>18,194</u>

11. Reconciliation of movements in shareholders' funds

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Profit for the financial year	7,817	12,172
Dividends paid on equity shares	(7,800)	(12,280)
Retained profit/(loss) for the year	<u>17</u>	<u>(108)</u>
Opening shareholders' funds	28,256	28,364
Closing shareholders' funds	<u>28,273</u>	<u>28,256</u>

Notes (continued)

12. Ultimate Parent Company and parent undertaking of larger Group

The company is a subsidiary undertaking of Girobank plc which is incorporated in England and Wales. The ultimate parent undertaking and controlling entity is Alliance & Leicester plc, also incorporated in England and Wales.

The largest and smallest Group in which the results of the company are consolidated is the Alliance & Leicester Group; these accounts may be obtained from the company's registered office at Carlton Park, Narborough, Leicester, LE19 0AL.

As permitted by paragraph 3(c) of FRS 8, no disclosure is made of transactions with members of the Alliance and Leicester group.