ALLIANCE & LEICESTER COMMERCIAL FINANCE (HOLDINGS) PLC

FINANCIAL STATEMENTS 31 DECEMBER 2005

Registration Number: 2504239

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Officers and professional advisers

The Board of Directors

R.L. Banks

M.W. Evans

B.P. Glover

C. S. Jones

C.R. Morley

A.B. Swann

R.L. Towers

Company Secretary

S. J. Odell

Registered Office

Carlton Park Narborough Leicester LE19 0AL

Auditors

Deloitte & Touche LLP Chartered Accountants & Registered Auditors Manchester

Bank

Alliance & Leicester Commercial Bank plc Bridle Road Bootle Merseyside GIR 0AA

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company during the year continued to be that of the holding company of Alliance & Leicester Commercial 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 £17,523,000 (restated 2004: £15,749,000).

During the year a final dividend of £15,749,000 was paid in respect of 2004.

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

A final dividend in respect of 2005 of £17,523,000 will be proposed at the 2006 Annual General Meeting.

A retained profit of £1,774,000 (restated 2004: £1,960,000) was transferred to reserves.

Directors

The directors who served throughout the year were as follows:

R.L. Banks

M.W. Evans

B.P. Glover

C.R. Morley

A.B. Swann

R.L. Towers

C. S. Jones was appointed a director on 20 March 2006.

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

Fully Paid Shares of 50p each			
Directors	At 1 January 2005	At 31 December 2005	
R. L. Banks	See Alliance &	Leicester plc accounts	
M. W. Evans	1,129	982	
B.P. Glover	See Alliance & Leiceste	er Commercial Bank plc accounts	
C.R. Morley	72	109	
A. B. Swann	See Alliance & Leiceste	er Commercial Bank plc accounts	
R. L. Towers	3,695	2,382	

Directors' Report (continued)

Rights 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: -

Directors	Number of Options			Exercise Price	Market price at	Exercise period	
		During	the Year			date of exercise	
	At 01.01.2005	Granted	Exercised	At 31.12.2005			
R. L. Banks			See	Alliance & Leic	ester plc acc	counts	
M.W. Evans	186	-	-	186	£6.70 #	-	23/02/2004 - 23/02/2011
c.	2,240	-	2,240	-	£8.37 ~	£8.87 ½	12/03/2005 - 12/03/2012
	7,273	-	7,273	-	£7.95 ~	£8.96	06/08/2005 - 06/08/2012
	5,168	-	-	5,168	£ 7.54 $\frac{1}{2}$ ~	-	26/02/2006 - 26/02/2013
	3,269	-	-	3,269	£8.79 ½ #	-	01/09/2006 ~ 01/09/2013
	1,520	-	-	1,520	£8.79 ½ ~	-	01/09/2006 - 01/09/2013
	1,342	-	-	1,342	£6.89 §	-	01/11/2006 ~ 01/05/2007
	4,716	-	-	4,716	£8.60 ~	-	03/03/2007 - 03/03/2014
	5,301	-	=	5,301	£8.34 ~	-	29/07/2007 ~ 29/07/2014
	-	4,863	-	4,863	£8.71 ½ ~	-	07/04/2008 - 06/04/2015
!	-	5,292	-	5,292	£8.81 ~	•	08/08/2008 07/08/2015
B.P. Glover			See Allia	nce & Leicester	Commercial	Bank plc a	ccounts
C.R. Morley	3,411		-	3,411	£8.79 ½ #		01/09/2006 - 01/09/2013
	852	-	-	852	£8.79 ½ ~	-	01/09/2006 - 01/09/2013
	1,342	-	-	1,342	£6.89 §	-	01/11/2006 - 01/05/2007
	4,360	-	-	4,360	£8.60 ~	-	03/03/2007 - 03/03/2014
	5,509	-	_	5,059	£8.34 ~	-	29/07/2007 - 29/07/2014
	-	4,589	-	4,589	£8.71 ½~	-	07/04/2008 - 06/04/2015
	-	4,722	-	4,722	£8.81 ~	-	08/08/2008 - 07/08/2015
A.B. Swann			See Allia	nce & Leicester	Commercial	Bank plc a	ccounts
	0.507			2.525	48.45		10/00/0005 10/00/0010
R.L. Towers	2,525	-	-	2,525	£8.37 ~	-	12/03/2005 - 12/03/2012
	8,662	-	8,662	-	£7.95 ~	£8.89	06/08/2005 - 06/08/2012
	5,964	-	-	5,964	£ 7.54 ½ ~	-	26/02/2006 - 26/02/2013
	3,411	-	-	3,411	£8.79 ½ #	-	01/09/2006 - 01/09/2013
	2,114	-	-	2,114	£8.79 ½ ~	-	01/09/2006 - 01/09/2013
	939	-	-	939	£6.89 §	-	01/11/2006 - 01/05/2007
	5,441	-	-	5,441	£8.60 ~	-	03/03/2007 - 03/03/2014
	6,284	-	-	6,284	£8.34 ~	-	29/07/2007 – 29/07/2014
	-	6,081 6,521	-	6,081 6,521	£8.71 ½ ~ £8.81 ~	-	07/04/2008 - 06/04/2015 08/08/2008 - 07/08/2015
1	-	0,321	-	0,321	£0.81 ~	-	U0/U0/2UU0 — U//U0/2U13

[#] Options granted under the Alliance & Leicester plc Approved Company Share Option Scheme

[~] Options granted under the Alliance & Leicester plc Unapproved Company Share Option Scheme

[§] 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
			~	~	option	-	
R. L. Banks				See Alliance &	Leicester	Plc accounts	
M. W. Evans*	2002	Deferred Shares	7,123	8.37	851	£8.71 ½	12.03.05-12.03.09
	2002	Matching Shares	7,123	8.37	851	£8.71 ½	12.03.05-12.03.09
	2003	Deferred Shares	8,126	7.545	1,077	Nil	26.02.06-26.02.10
	2003	Matching Shares	8,126	7.545	1,077	Nil	26.02.06-26.02.10
	2004	Deferred Shares	15,050	8.60	1,750	Nil	03.03.07-03.03.11
	2004	Matching Shares	15,050	8.60	1,750	Nil	03.03.07-03.03.11
	2005	Deferred Shares	12,959	8.715	1,487	Nil	07.04.08-06.04.12
	2005	Matching Shares	12,959	8.715	1,487	Nil	07.04.08-06.04.12
B.P. Glover			See Alliance	e & Leicester Cor	mmercial B	ank plc accou	unts
C.R. Morley	2004	Deferred Shares	5,925	8.60	689	Nil	03.03.07-03.03.11
•	2004	Matching Shares	5,925	8.60	689	Nil	03.03.07-03.03.11
	2005	Deferred Shares	6,902	8.715	792	Nil	07.04.08-06.04.12
	2005	Matching Shares	6,902	8.715	792	Nil	07.04.08-06.04.12
A.B. Swann			See Alliance	e & Leicester Co	mmercial B	ank plc accou	ints
R. L. Towers**	2002	Deferred Shares	8,805	8.37	1,052	£8.76	12.03.05-12.03.09
	2002	Matching Shares	8,805	8.37	1,052	£8.76	12.03.05-12.03.09
	2003	Deferred Shares	10,057	7.545	1,333	Nil	26.02.06-26.02.10
	2003	Matching Shares	10,057	7.545	1,333	Nil	26.02.06-26.02.10
	2004	Deferred Shares	14,156	8.60	1,646	Nil	03.03.07-03.03.11
	2004	Matching Shares	14,156	8.60	1,646	Nil	03.03.07-03.03.11
	2005	Deferred Shares	15,556	8.715	1,785	Nil	07.04.08-06.04.12
	2005	Matching Shares	15,556	8.715	1,785	Nil	07.04.08-06.04.12
			<u></u>				

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

M Evans exercised his 2002 Matching and Deferred bonus options on 4 April 2005.
 R Towers exercised his 2002 Matching and Deferred bonus options on 16 March 2005.

Directors' Report (continued)

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, Alliance & Leicester Commercial Finance (Holdings) plc, has no trade creditors.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed on behalf of the directors

C. R. Morley Director

28 July 2006

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 at the end of the year and of the profit or loss for te year then ended. In preparing those financial statements, the directors are required to:

- select appropriate accounting policies, as described on page 12, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for establishing and maintaining systems of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and any other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER COMMERCIAL FINANCE (HOLDINGS) PLC

We have audited the financial statements of Alliance & Leicester Commercial Finance (Holdings) plc for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet 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 opinions 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 law and United Kingdom law Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion 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 other transactions is not disclosed.

We read the other information contained in the annual report for the above year as described in the contents section 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 International Standards on Auditing (UK and Ireland) 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 circumstances of the company, 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.

<u>INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER COMMERCIAL FINANCE (HOLDINGS) PLC (continued)</u>

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2005 and of the Profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Deloité l'Touche Les

Manchester

28 July 2006

Profit and loss account For the year ended 31 December 2005

	<u>Notes</u>		Restated
		<u>2005</u> £'000	(note 2) 2004 £'000
Other income	3	17,523	15,749
Operating profit and profit on ordinary activities before tax	3	17,523	15,749
Tax on profit on ordinary activities	5	-	-
Profit for the financial year		17,523	15,749
Dividends	2,6	(15,749)	(13,789)
Retained profit for the financial year		1,774	1,960
Balance brought forward	2	18,234	<u>16,274</u>
Balance carried forward	2	<u>20,008</u>	<u>18,234</u>

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

Balance Sheet 31 December 2005

	<u>Notes</u>	2005 £'000	Restated (note 2) 2004 £'000
Fixed assets			
Investments	7	134,969	117,446
Current liabilities			
Creditors: amounts falling due within one year	2,8	(96,767)	(81,018)
Net current liabilities		(96,767)	(81,018)
Total assets less current liabilities		38,202	36,428
Net assets		38,202	36,428
Capital and reserves			
Called up equity share capital	10	18,194	18,194
Profit and loss account		20,008	18,234
Equity shareholders' funds	2,11	38,202	36,428

These financial statements were approved by the directors on the 28 July 2006 and are signed on their behalf by:

Molly.

C. R. Morley

Director

Notes to 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 with the exception of the changes in policies in relation to dividend payments following the adoption of FRS 21 "Events after the Balance Sheet Date.".

a) Accounting convention

The company prepares its accounts under the historical cost convention and in accordance with applicable United Kingdom Accounting laws and 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) <u>Cash flow statement</u>

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

Current tax is provided at amounts expected to be paid (or recovered) using the tax rate and the laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

e) Related party transactions

As the company is a wholly owned subsidiary of Alliance & Leicester plc, 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 plc, 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. Changes in accounting policy

The 2004 comparative figures have been restated to reflect the adoption of FRS 21 "Events after the Balance Sheet Date." FRS 21 requires that dividends are not accrued until they are approved. The final dividend in a year is approved by the shareholders in the following year's Annual General Meeting.

Impact of the adoption of FRS 21:

Profit and loss account	Note	2004 as previously reported £000	Effect of accounts restatement £000	2004 Restated £000
	_		(4.040)	40 =00
Dividends	6	15,749	(1,960)	13,789
Balance sheet				
Amounts owed to group undertakings	8	88,967	(7,949)	81,018
Opening equity shareholders' funds	11	28,479	5,989	34,468
Cloing equity shareholders' funds	11	28,479	7,949	36,428

3. Operating profit

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

<u>2005</u>	<u>2004</u>
£'000	£'000

Release of provision against investment

<u>17,523</u> <u>15,749</u>

The audit fee is borne by Alliance & Leicester Commercial Finance plc in both the current year and the prior year and is disclosed in the notes to that company's accounts.

4. Staff costs

The company had no employees in either the current year or the preceding year.

The directors received no remuneration for the services to this company in either the current or previous years.

Mr Banks is a director of the ultimate parent company, Alliance & Leicester plc and his remuneration is borne by that company. The majority of Mr Banks' activities relate to services carried out in relation to Alliance & Leicester plc and other group companies. Therefore the directors deem it appropriate not to directly allocate any of his costs to the profit and loss account of Alliance & Leicester Commercial Finance (Holdings) plc.

Mr Glover and Mr Swann are directors of Alliance & Leicester Commercial Bank plc and Mr Evans, Mr Morley and Mr Towers are directors of Alliance & Leicester Commercial Finance plc and their remuneration is borne by those respective companies. The majority of their activities relate to services carried out in relation to these and other group companies. Therefore the directors deem it appropriate not to directly allocate any of their costs to the profit and loss account of Alliance & Leicester Commercial Finance (Holdings) plc.

4. Tax on profit on ordinary activities

Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%)

	<u>2005</u> <u>£'000</u>	<u>2004</u> £'000
Profit on ordinary activities before taxation	<u>17,523</u>	<u>15,749</u>
Profit on ordinary activities by rate of tax	5,257	4,725
Non taxable provision release	(5,257)	(4,725)
Total current tax		

6. <u>Dividends</u>

	2005 <u>£'000</u>	Restated (note 2) 2004 £'000
Dividend paid £0.87 per ordinary share (Restated 2004 – £0.75)	<u>15,749</u>	<u>13,789</u>

7. Fixed asset investments

£'000

Shares in subsidiary undertakings:

Cost	
At 1 January 2005 and 31 December 2005	<u>145,120</u>
Provisions	
At 1 January 2005	27,674
Released during the year	(17,523)
At 31 December 2005 Net book value	10,151
At 31 December 2005	<u>134,969</u>
At 31 December 2004	<u>117,446</u>

The company's only subsidiary undertaking at 31 December 2005 is Alliance & Leicester Commercial 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.

The subsidiaries of Alliance & Leicester Commercial Finance plc which are registered in England and Wales are listed below (continued overleaf). All of these subsidiaries are 100% owned:

		<u>Financial</u>
	<u>Trade</u>	Year End
A & L CF March (1) Limited	Lessors	31 March
A & L CF March (2) Limited	Lessors	31 March
A & L CF March (3) Limited	Lessors	31 March
A & L CF March (4) Limited	Lessors	29 March
A & L CF March (5) Limited	Lessors	31 March
A & L CF March (6) Limited	Lessors	31 March
A & L CF March (7) Limited	Lessors	31 March
A & L CF March (8) Limited	Lessors	31 March
A & L CF March (9) Limited	Lessors	31 March
A & L CF June (1) Limited	Lessors	30 June
A & L CF June (2) Limited	Lessors	30 June
A & L CF June (3) Limited	Lessors	30 June
A & L CF June (5) Limited	Lessors	30 June
A & L CF June (6) Limited	Lessors	30 June
A & L CF June (7) Limited	Lessors	30 June
A & L CF June (8) Limited	Lessors	30 June
A & L CF September (1) Limited	Lessors	30 September
A & L CF September (2) Limited	Lessors	30 September
A & L CF September (3) Limited	Lessors	30 September
A & L CF September (4) Limited	Lessors	30 September
A & L CF September (5) Limited	Lessors	30 September
A & L CF September (6) Limited	Lessors	30 September

7. Fixed asset investments (cont)

List of subsidiaries of Alliance & Leicester Commercial Finance plc (continued)

		<u>T</u> rade	<u>Financial</u> <u>Year End</u>
A & L CF December (1) Limited		Lessors	31 December
A & L CF December (2) Limited		Lessors	31 December
A & L CF December (3) Limited		Lessors	31 December
A & L CF December (6) Limited		Lessors	31 December
A & L CF December (7) Limited		Lessors	31 December
A & L CF December (9) Limited		Lessors	31 December
Sovereign Freeze Limited	*	Lessors	31 December
Sovereign Gimi Limited	*	Lessors	31 December
Sovereign Hilli Limited	*	Lessors	31 December
Sovereign Khannur Limited	*	Lessors	31 December
Sovereign Spirit Limited	*	Lessors	31 December
Hansar Finance Limited		Lessors	31 December

^{*} Incorporated in Bermuda and registered in England and Wales as an overseas branch.

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

8. Creditors

Amounts falling due within one year

		Restated
		(note 2)
	<u>2005</u>	<u>2004</u>
	£'000	£'000
Amounts owed to group undertakings (note 2)	<u>96,767</u>	<u>81,018</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 (2004: £ nil).

10.	Share	capital

	Share ou prouz	<u> 2005</u>			2004	
		No. ('000)	£'000	No. ('000)	£'00 <u>0</u>	
	Authorised:					
	Ordinary Shares of £1 each	<u>73,944</u>	<u>73,944</u>	<u>73,944</u>	<u>73,944</u>	
	Allotted, called up and fully paid:					
	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 equity sharehold	lders' funds				
				2005 £'000	2004 £'000	
	Profit for the financial year as previously stated			17,523	15,749	
	Dividends paid on equity shares			(15,749)	(15,749)	
	Adoption of FRS 21			-	1,960	
	Retained profit for the year as restated			1,774	1,960	
	Opening equity shareholders' funds (note 2)			36,428	34,468	
	Closing equity shareholders' funds (note 2)			38,202	36,428	

12. <u>Ultimate Parent Company</u>

The immediate parent company, Alliance & Leicester Commercial Bank plc is a subsidiary of Alliance & Leicester plc, which is the ultimate parent undertaking incorporated in England and Wales.

The largest and smallest Group in which the results of the company are consolidated is the Alliance & Leicester plc. The consolidated accounts of this Group are available to the public and may be obtained from Carlton Park, Narborough, Leicester, LE19 OAL.