

nm

1
FC024509

SOVEREIGN HILLI LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2006

TUESDAY



AOULMTUM
A58 16/10/2007 733
COMPANIES HOUSE

Company Registration Number FC024509

SOVEREIGN HILLI LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

CONTENTS	PAGE
Officers and professional advisers	1
The directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report to the members	6
Profit and loss account	8
Balance sheet	9
Notes to the financial statements	10

SOVEREIGN HILLI LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

R L Banks
M W Evans
C S Jones
C R Morley
R L Towers

COMPANY SECRETARY

Ms D Hubbard-Taylor

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDITOR

Deloitte & Touche LLP
Chartered Accountants
& Registered Auditors
Manchester

BANK

Alliance & Leicester plc
Bridle Road
Bootle
Merseyside
L30 4GB

SOVEREIGN HILLI LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is a wholly owned subsidiary of Alliance & Leicester plc and operates as part of the group's Commercial Bank Division

The company's principal activity is that of lessors and financiers of high value assets in the corporate sector

As shown in the company's profit and loss account on page 8 the company's operating profit decreased during the year compared to the prior year

The balance sheet on page 9 shows that the net assets of the company increased during the year. Details of amounts owed to the company's immediate parent undertaking at 31 December 2006 are shown in note 9 to the financial statements

Alliance & Leicester plc manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Commercial Bank division of Alliance & Leicester plc, which includes the company, is discussed in the group's Annual Report which does not form part of this Report

Principal risks and uncertainties

The company manages its risk in line with the Group's risk management policy and control framework which is disclosed in the group's Annual Report

The financial risks of the company are managed by the Group Treasury function of the ultimate parent company, Alliance & Leicester plc

The company is mainly financed by loans from its immediate parent undertaking and the level of the third party debt is not considered to be material

There were no residual values of finance agreements included in the net investment in finance agreements

Environment

The Alliance & Leicester plc group recognises that it has a responsibility to act in a way that respects the environment. The company operates in accordance with group policies which are described in the group's Annual Report which does not form part of this report

Employees

As disclosed in note 3 to the financial statements the company had no employees in either the current year or the prior year. Services to the company are carried out by employees of the immediate parent undertaking, Alliance & Leicester Commercial Finance plc. Responsibility for all employee related matters rests with the Alliance & Leicester plc Director of Group Human Resources. Group responsibilities on employee related matters are disclosed in the Alliance & Leicester Annual Report - Corporate Social Responsibility Report

SOVEREIGN HILLI LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

RESULTS AND DIVIDENDS

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements

The directors have not recommended a dividend (year to 31 December 2005 £nil)

DIRECTORS

The directors who served the company during the year were as follows

R L Banks
M W Evans
C S Jones
C R Morley
A B Swann
R L Towers

A B Swann resigned as a director on 31 March 2007

Each of the persons who is a director at the approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given in accordance with the provisions of Section 234ZA of the Companies Act 1985

DISCLOSURE OF INDEMNITIES

The directors confirm that under Section 309A of the Companies Act -

a) at the time this Directors' Report is signed a qualifying third party indemnity provision (provided by the ultimate parent company Alliance & Leicester plc) is in force for the benefit of all the directors of the company and,

b) for the financial year ended 31 December 2006 a qualifying third party indemnity provision (provided by the ultimate parent company Alliance & Leicester plc) was in force for the benefit of all the directors of the company

The directors confirm that under Section 310 of the Companies Act there is no qualifying third party indemnity provision for one or more directors of an associated company either on the date the Directors' Report is signed or in the last financial year

SOVEREIGN HILLI LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

AUDITOR

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming annual general meeting

Signed on behalf of the directors

A handwritten signature in black ink, appearing to read 'C R Morley', is written over the printed name.

C R Morley
Director

Approved by the directors on 12 October 2007

SOVEREIGN HILLI LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2006

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOVEREIGN HILLI LIMITED

We have audited the financial statements of Sovereign Hilli Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 14. 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 the Company's memorandum and articles of association under the terms of our engagement letter with Sovereign Hilli Limited dated 20 July 2007. 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 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 (UK 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. 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 other transactions is not disclosed.

We read the directors' report and 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 or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Audit (United Kingdom 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SOVEREIGN HILLI LIMITED** *(Continued)*

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 the company's affairs as at 31 December 2006 and of the profit for the year then ended,
- the information given in the directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Manchester

12/10/07.

SOVEREIGN HILLI LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 £
Turnover	2	1,947,112	2,049,385
Administrative expenses		(69,109)	(59,560)
Operating profit		1,878,003	1,989,825
Interest payable and similar charges	5	(1,751,418)	(1,872,758)
Profit on ordinary activities before taxation		126,585	117,067
Tax on profit on ordinary activities	6	(37,976)	(35,120)
Profit for the financial year		88,609	81,947
Balance brought forward		178,284	96,337
Balance carried forward		266,893	178,284

All of the activities of the company are classed as continuing

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £88,609 attributable to the shareholders for the year ended 31 December 2006 (2005 - profit of £81,947)

The notes on pages 10 to 15 form part of these financial statements

SOVEREIGN HILLI LIMITED

BALANCE SHEET

31 DECEMBER 2006

	Note	£	2006 £	2005 £
Current assets				
Debtors due within one year	7	2,143,365	2,041,722	
Debtors due after one year	7	43,173,771	43,096,104	
		<u>45,317,136</u>	<u>45,137,826</u>	
Creditors: Amounts falling due within one year	9	<u>(36,561,751)</u>	<u>(37,970,538)</u>	
Net current assets			8,755,385	7,167,288
Total assets less current liabilities			<u>8,755,385</u>	<u>7,167,288</u>
Provisions for liabilities and charges				
Deferred taxation	10		(8,476,492)	(6,977,004)
Net assets			<u>278,893</u>	<u>190,284</u>
Capital and reserves				
Called-up equity share capital	12		12,000	12,000
Profit and loss account			266,893	178,284
Equity shareholders' funds	13		<u>278,893</u>	<u>190,284</u>

These financial statements were approved by the directors on the 12 October 2007 and are signed on their behalf by



C R Morley
Director



M W Evans
Director

The notes on pages 10 to 15 form part of these financial statements

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom law and accounting standards

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

The company has complied with the Statement of Recommended Practice on Accounting Issues in the Asset Finance and Leasing Industry, issued by the Finance and Leasing Association.

Cash flow statement

Under Financial Reporting Standard No 1 (revised 1996) "Cash flow statements" the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Related party transactions

The company has taken advantage of the exemption offered by Financial Reporting Standard 8 "Related party disclosures" and is therefore not required to disclose transactions with other group companies.

Finance and rental agreements

In accordance with Statement of Standard Accounting Practice No 21, "Accounting for leases and hire purchase contracts", the minimum lease payments receivable from finance lease and other finance agreements, less appropriate future income arising from finance charges, are included in debtors.

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciated in accordance with the accounting policy set out below.

Turnover comprises

Finance lease agreements the income component of repayments which are credited to the profit and loss account using methods which produce a constant rate of return on the net cash investment.

Operating lease agreements accounting rentals recognised on a straight line basis over the period of the lease.

Provisions for bad and doubtful debts a charge equal to the losses written off in the year, recoveries and the movement in provisions.

Cost of sales relates to

Operating lease agreements depreciation of operating lease assets.

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1 Accounting policies *(continued)*

Depreciation

Depreciation is provided on operating lease assets at rates calculated to write off the cost of the assets, less estimated residual value, over their useful economic lives using methods which allocate depreciation charges on a systematic basis to the periods which are expected to benefit from their use

Operating lease assets are regularly reviewed for impairment in accordance with Financial Reporting Standard No 11 "Impairment of fixed assets and goodwill" When an asset's carrying value has been impaired the amount is charged to the profit and loss account in the year of impairment

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 by 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

Provisions for bad and doubtful debts

Specific provisions are made in respect of finance and rental agreements where recovery is considered doubtful, a general provision is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending The provisions are deducted from the net investment in finance agreements The charge in the profit and loss account comprises write offs, recoveries and the net movement in provisions in the year The charge has been deducted from turnover

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

2 Turnover

Amounts receivable during the year from which turnover and gross profit are derived is as follows

	2006 £	2005 £
Amounts due on		
Operating leases	-	-
Finance leases	1,835,786	1,742,048
	<u>1,835,786</u>	<u>1,742,048</u>

New business written in the year is as follows

	2006 £	2005 £
Operating leases	-	-
Finance leases	-	-
	<u>-</u>	<u>-</u>

3. Particulars of employees

No salaries or wages have been paid to employees, including the directors, during the year or the preceding year

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

The directors received no remuneration for their services to this company in either the current year or the preceding year. The directors are also employees of the immediate parent company, Alliance & Leicester Commercial Finance plc and the majority of their activities relate to services carried out in relation to Alliance & Leicester Commercial Finance plc and other group companies. Therefore the directors deem it inappropriate to directly allocate any of their costs to the profit and loss account of this company.

4. Auditors' remuneration

Auditors' remuneration was borne by the immediate parent company, Alliance & Leicester Commercial Finance plc, in both the current year and the preceding year.

5. Interest payable and similar charges

	2006 £	2005 £
Amounts payable to immediate parent undertaking	<u>1,751,418</u>	<u>1,872,758</u>

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2006 £	2005 £
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	(1,451,770)	(1,934,136)
Over provision in prior year	(9,742)	-
Total current tax credit	<u>(1,461,512)</u>	<u>(1,934,136)</u>
Deferred tax		
Origination and reversal of timing differences	1,489,746	1,969,256
Under provision in respect of prior periods	9,742	-
Total deferred tax charge (note 10)	<u>1,499,488</u>	<u>1,969,256</u>
Tax on profit on ordinary activities	<u>37,976</u>	<u>35,120</u>

(b) 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% (2005 - 30%)

	2006 £	2005 £
Profit on ordinary activities before taxation	<u>126,585</u>	<u>117,067</u>
Profit on ordinary activities by rate of tax	37,976	35,120
Capital allowances in excess of taxable lease receipts	(1,489,746)	(1,969,256)
Over provision in prior year	(9,742)	-
Total current tax (note 6(a))	<u>(1,461,512)</u>	<u>(1,934,136)</u>

7. Debtors

	2006 £	2005 £
Net investment in finance agreements (note 8)	45,317,136	45,137,600
Prepayments and accrued income	-	226
	<u>45,317,136</u>	<u>45,137,826</u>

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

7 Debtors (continued)

The debtors above include the following amounts falling due after more than one year

	2006 £	2005 £
Net investment in finance agreements	<u>43,173,771</u>	<u>43,096,104</u>

8. Finance agreements

	2006 £	2005 £
Net investment in finance agreements	<u>45,317,136</u>	<u>45,137,600</u>

9. Creditors: Amounts falling due within one year

	2006 £	2005 £
Amounts owed to group undertakings	<u>36,561,751</u>	<u>37,970,538</u>

10. Deferred taxation

The movement in the deferred taxation provision during the year was

	2006 £	2005 £
Provision brought forward	6,977,004	5,007,748
Profit and loss account movement arising during the year (note 6)	<u>1,499,488</u>	<u>1,969,256</u>
Provision carried forward	<u>8,476,492</u>	<u>6,977,004</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2006 £	2005 £
Excess of taxation allowances over depreciation	8,480,296	6,980,808
Tax losses available	<u>(3,804)</u>	<u>(3,804)</u>
	<u>8,476,492</u>	<u>6,977,004</u>

11. Related party transactions

The company has taken advantage of the exemption offered by Financial Reporting Standard 8 "Related party disclosures" and is therefore not required to disclose transactions with other group companies

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

12. Share capital

Authorised share capital:

	2006	2005
	£	£
12,000 Ordinary shares of BM \$1 each	<u>12,000</u>	<u>12,000</u>

Allotted, called up and fully paid:

	2006		2005	
	No	£	No	£
Ordinary shares of BM \$1 each	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>

13. Reconciliation of movements in equity shareholders' funds

	2006	2005
	£	£
Profit for the financial year	88,609	81,947
Opening equity shareholders' funds	<u>190,284</u>	<u>108,337</u>
Closing equity shareholders' funds	<u>278,893</u>	<u>190,284</u>

14. Ultimate parent company

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

The largest and smallest Group in which the results of the company are consolidated is that headed by Alliance & Leicester plc. The consolidated accounts of this Group are available to the public and may be obtained from Carlton Park, Narborough, Leicester, LE19 0AL