

Sovereign Retirement Capital Limited

Report and Financial Statements

Year Ended

30 April 2010

Company number 05238890

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Sovereign Retirement Capital Limited

Annual report and financial statements for the year ended 30 April 2010

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Directors

G C W Marshall
R A Pearce Gould
S A Burgess
S Little
P Barber
P Couch
G Sidwell

Secretary and registered office

M Windle
Citygate
St James Boulevard
Newcastle Upon Tyne
NE1 4JE

Company number

05238890 (England & Wales)

Auditors

BDO LLP
Prospect Place
85 Great North Road
Hatfield
Hertfordshire
AL9 5BS

Sovereign Retirement Capital Limited

Report of the directors for the year ended 30 April 2010

The directors present their report together with the audited financial statements for the year ended 30 April 2010

Principal activities and future prospects

The company's main activity is as a holder of equity release investments in shared equity loans. The company is no longer purchasing any new investments and does not intend to do so in the future. Investments will be realised over a number of years as and when the loans become redeemable.

Review of the Business

The company's results are set out on page 6, and are considered to be satisfactory. The Company disposed of its sole assured tenancy during the year. The company has no employees, and expenses incurred are mainly in relation to the costs of managing its investments.

Post Balance Sheet Events

Change of Ownership

On 9 August 2010 the company's parent Sovereign Reversions Limited (formerly Sovereign Reversions plc) was acquired by Grainger Equity Release Ltd ("GERL"), a wholly owned subsidiary of Grainger plc. Grainger plc is the UK's largest listed specialist residential landlord, and whose business includes a large retirement solutions business.

On 23 August 2010 Grainger announced that it intended to form a 50/50 joint venture for Sovereign Reversions between Moorfield Real Estate Fund II Limited ("Moorfield"), and GERL, subject to obtaining the necessary regulatory approvals. The joint venture agreement completed on 13 October 2010. Full details of the joint venture are provided in the financial statements of the intermediate parent company Sovereign Reversions Limited.

Following the change of ownership, representative directors from GERL and Moorfield have been appointed to the board of Sovereign Retirement Capital Limited.

Financing

In July 2010, Sovereign Reversions Limited agreed refinancing terms for the Sovereign Group with Allied Irish Banks plc (AIB) for a £15m loan for a two year term. Proceeds on the sale of assets secured to AIB were to be split whereby 60% of the proceeds of individual sales will be applied as loan repayments. The loan was to be reduced by a minimum of £1.0m in year one and £1.25m in year two.

However, on the change of control in August 2010, both of the Group's principal bankers invoked a change of control clause in their loan agreements, with the parent company being obliged to repay its loans by 31 October 2010. Extensions have been subsequently granted to 31 January 2011. Indicative alternative financing arrangements have been established for a five year term expiring in October 2015. Reversionary assets will be provided as security against this facility and the legal work required for this to take place is currently being completed. Should this refinancing not be achieved the joint venture partners have agreed to provide funding sufficient for the business to continue trading for at least 12 months from the approval of these financial statements.

Change of Accounting Reference Date

The accounting reference date has been changed to 30 September to bring into line with Grainger plc. The next financial statements will be for the period ending 30 September 2011.

Sovereign Retirement Capital Limited

Report of the directors for the year ended 30 April 2010 (*Continued*)

Going Concern

The directors have reviewed the cash flow projections for the company and the group and have considered the financial resources available including bank finance. Due to the uncertainty noted above in relation to the timing of the refinancing the joint venture partners have agreed to provide financial support as necessary for a period of no less than one year from the approval of the financial statements and accordingly the directors have an expectation that the company and the group have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividends

The company did not pay a dividend during the year (2009 - £nil)

Directors

The following directors have held office since 1 May 2009 -

G C W Marshall
R A Pearce Gould
N T Hare-Scott (resigned 18 November 2010)
S Little
S A Burgess
P Barber (appointed 18 November 2010)
P Couch (appointed 18 November 2010)
G Sidwell (appointed 25 November 2010)

Charitable and political contributions

No charitable or political contributions were made during the year.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The directors are also responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Sovereign Retirement Capital Limited

Report of the directors for the year ended 30 April 2010 (*Continued*)

Directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that show and explain the company's transactions, 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 2006

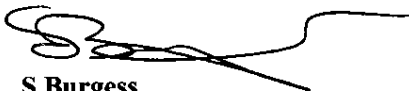
They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware

In preparing this directors' report advantage has been taken of the small companies' exemption

On behalf of the Board



**S Burgess
Director**

Date 21 January 2011

Sovereign Retirement Capital Limited

Report of the independent auditors

Independent auditors' report to the members Of Sovereign Retirement Capital Limited

We have audited the financial statements of Sovereign Retirement Capital Limited for the year ended 30 April 2010, which comprise the profit and loss account, the statement of total gains and losses, the note of historical cost profits and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 April 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Sovereign Retirement Capital Limited

Report of the independent auditors (*Continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanation we require for our audit or
- the directors were not entitled to prepare the directors' report in accordance with the small companies' regime.

BDO LLP

Richard Kelly

- Senior Statutory Auditor

For and on behalf of BDO LLP

Hatfield, Herts

United Kingdom

Date *21 January 2011*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC 305127)

Sovereign Retirement Capital Limited

Results for the year ended 30 April 2010

Profit and loss account

	Notes	2010 £'000	2009 £'000
Administrative expenses		(33)	(36)
Operating loss	3	<u>(33)</u>	<u>(36)</u>
Profit on sale of investment properties		92	65
Rental income		-	6
Profit on ordinary activities before taxation		<u>59</u>	<u>35</u>
Taxation credit/(charge)	4	10	(5)
Profit on ordinary activities after taxation		<u><u>69</u></u>	<u><u>30</u></u>

Note of historical cost profit and losses

		2010 £'000	2009 £'000
Profit on ordinary activities before taxation		59	35
Realisation of property revaluation gains/(losses) of previous periods		34	(18)
Historical cost profit for the year before taxation		<u>93</u>	<u>17</u>
Taxation	4	-	-
Historical cost profit for the year after taxation		<u><u>93</u></u>	<u><u>17</u></u>

Statement of total recognised gains and losses

		2010 £'000	2009 £'000
Profit on ordinary activities after taxation		69	30
Unrealised gains/(loss) on revaluation of investment properties		250	(259)
Taxation on valuation realised on sale of properties	4	(10)	5
Total recognised gains and losses relating to the year		<u><u>309</u></u>	<u><u>(224)</u></u>

All amounts relate to continuing activities

The notes on pages 8 to 12 form part of these financial statements

Sovereign Retirement Capital Limited

Company Number: 05238890

Balance sheet at 30 April 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	5	3,833	4,086
		<u>3,833</u>	<u>4,086</u>
Creditors			
Amounts falling due within one year	6	(3,502)	(4,064)
Net current liabilities		<u>(3,502)</u>	<u>(4,064)</u>
Total assets less current liabilities		<u>331</u>	<u>22</u>
Capital and reserves			
Called up share capital	7	200	200
Revaluation deficit	8	(126)	(342)
Profit and loss account	8	257	164
Shareholders funds	9	<u>331</u>	<u>22</u>

The financial statements were approved by the Board and authorised for issue on 21 January 2011

Director

S A Burgess

The notes on pages 8 to 12 form part of these financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention (modified to include the revaluation of investment properties) and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

Tangible assets

Tangible assets, comprising shared equity loans and an assured tenancy, are included in the financial statements once an irrevocable purchase contract has been entered into. They are accounted for in accordance with SSAP 19 "Accounting for Investment Properties", which provides that these assets should not be subject to periodic depreciation charges (unless held on short lease), but should be shown at open market value. Open market value in the case of the company's tangible assets reflects the fact that they are subject to lifetime occupancy rights. This is contrary to the Companies Act 2006, which states that, subject to any provision for depreciation or impairment in value, fixed assets are normally to be stated at purchase price or production cost.

The treatment of these assets under the Companies Act would not, in the opinion of the directors, give a true and fair view as they are not held for consumption in the business but as investments, the disposal of which would not materially affect any operations of the enterprise. In such a case it is the current value of these investments, and changes in that current value, which are of prime importance. Consequently, for the proper appreciation of the financial position, the accounting treatment required by SSAP 19 is considered by the directors to be appropriate for the company's tangible assets. The effect of this departure from Companies Act 2006 has not been quantified because it is inappropriate and in the opinion of the directors would be misleading. The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account.

Details of the carrying value and historic cost information for tangible assets are disclosed in Note 5.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief.

Deferred tax balances are not discounted.

Sovereign Retirement Capital Limited

Notes forming part of the financial statements for the year ended 30 April 2010 (Continued)

1 Accounting policies (continued)

Dividends

Equity dividends are recognised when they become legally payable. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Interim equity dividends are recognised when paid.

2 Employees and directors

There were no employees during the year apart from the directors. None of the directors received any remuneration in respect of their services to the company.

3 Operating loss

	2010 £'000	2009 £'000
Operating loss is stated after charging		
Auditors' remuneration – audit services	6	6

4 Taxation

	2010 £'000	2009 £'000
Current tax		
UK corporation tax on ordinary profits for the year	(10)	5
UK corporation tax on realised profits/(losses) transferred from revaluation reserve	10	(5)
	-	-

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

Profit on ordinary activities before tax	59	35
Profit on ordinary activities at 28.0% (2009: 28.0%)	16	10
Capital gains chargeable for the year	36	14
Indexation allowance	(26)	(19)
Group relief claimed	(26)	(5)
Current tax charge for year	-	-

Sovereign Retirement Capital Limited

Notes forming part of the financial statements for the year ended 30 April 2010 (*Continued*)

4 Taxation (continued)

The company provides deferred tax on gains arising from the revaluation of tangible assets to their market value only where there is a binding agreement to sell the asset. There were no such agreements as at 30 April 2010 and at 30 April 2009. At 30 April 2010 the amount of deferred tax unprovided on the surplus on revaluation of fixed assets is £nil (2009 - £nil).

5 Tangible fixed assets

	Shared equity loans £'000	Assets held for resale £'000	Total £'000
<i>Cost or valuation</i>			
At 1 May 2009	3,526	560	4,086
Additions	-	-	-
Transfers to assets held for resale	(612)	612	-
Disposals	-	(503)	(503)
Revaluation	223	27	250
At 30 April 2010	<u>3,137</u>	<u>696</u>	<u>3,833</u>
Independently valued	<u>3,137</u>	<u>-</u>	<u>3,137</u>

Independently valued tangible assets were valued by Allsop LLP at their open market value (subject to life time occupancy rights) at 30 April 2010 in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

The historical cost of the shared equity loans held at 30 April 2010 was £3,948,000 (2009 £4,428,000).

Shared equity loans in the course of redemption were valued by the directors on a net realisable value basis as at 30 April 2010 and 2009.

Sovereign Retirement Capital Limited

Notes forming part of the financial statements for the year ended 30 April 2010 (*Continued*)

6 Creditors - Amounts falling due within one year

	2010 £'000	2009 £'000
Corporation tax	-	11
Other creditors	15	7
Amounts owed to group undertakings	3,487	4,046
	<u>3,502</u>	<u>4,064</u>

7 Share capital

	Allotted, called up and fully paid	
	2010 £'000	2009 £'000
200,000 ordinary shares of £1 each	<u>200</u>	<u>200</u>

8 Reserves

	Revaluation reserve £'000	Profit and loss account £'000
At 1 May 2009	(342)	164
Profit for the year	-	69
Tax on realised profits transferred from revaluation reserve	-	(10)
Revaluation in year	250	-
Transfer of realised profits	(34)	34
At 30 April 2010	<u>(126)</u>	<u>257</u>

Sovereign Retirement Capital Limited

Notes forming part of the financial statements for the year ended 30 April 2010 (Continued)

9 Reconciliation of movement in shareholder's funds

	2010	2009
	£'000	£'000
Profit for the financial year	69	30
Tax (charge)/credit on realised profits transferred from revaluation reserve	(10)	5
Unrealised revaluations in year	250	(259)
Net addition/(deduction) to shareholder's funds	309	(224)
Opening shareholder's funds	22	246
Closing shareholder's funds	331	22

10 Ultimate controlling party

As at 30 April 2010 the company's ultimate parent company was Sovereign Reversions Limited (formerly Sovereign Reversions plc). Copies of the consolidated financial statements are available from Companies House.

Post year-end on 9 August 2010 Sovereign Reversions Limited and its subsidiaries ("The Sovereign Group") was acquired by Grainger Equity Release Limited, a subsidiary of Grainger plc. On 13 October 2010 Grainger Equity Release Limited disposed of 50% of the Sovereign Group and entered into a joint venture agreement with The Moorfield Real Estate Fund II Limited, a subsidiary of Moorfield Group Limited.

11 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8 from the requirement to make certain disclosures concerning related parties.