

## Annual Report and Financial Statements

# 2007

Period to 31 December 2007

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## MILTON HOMES LIMITED

Company Registration No 06037454

### ***Presentation of information***

This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed.

Unless specified otherwise, the term "Company" means "Milton Homes Limited", "Group" means the Company and its subsidiary undertakings, "Living Plus" means Living Plus Limited and its fellow subsidiary company Living Plus Assets Limited, "Retirement Plus" means Retirement Plus Limited and its subsidiary Retirement Plus Property Plans Limited, and "DV3 RAM" means DV3 RAM Limited and its Jersey property unit trust subsidiaries.

The Company publishes its financial statements in Pounds Sterling. The abbreviations "£MM" and "£'000" represent millions and thousands of Pounds Sterling, respectively.

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union.

### ***Forward-looking statements***

Certain sections in the Annual Report may contain "forward-looking statements" such as statements that include the words "expect", "estimate", "project", "anticipate", "believe", "should", "intend", "plan", "probability", "risk", "target", "goal", "objective", "outlook", "optimistic", and similar expressions or variations on such expressions.

This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing the Group. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events. Nothing in this Annual Report should be construed as a profit forecast.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to, general economic conditions in the UK, the monetary and interest rate policies of the Bank of England, retail and house price inflation and deflation, changes in UK laws, financial services regulations and taxes, changes in competition and pricing environments, the inability to hedge certain risks, notably interest rate risks, economically, acquisitions or restructurings, and the success of the Group in managing the risks involved in the foregoing.

For a further discussion of certain risks faced by the Group, see pages 16 to 20.

### ***Directors' report***

Pages 5 to 27, inclusive, of this Annual Report comprise a report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. In particular, Directors would be liable to the Company (but not to any third party) if the Directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

## **MILTON HOMES LIMITED**

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**MILTON HOMES LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

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***Directors***

HD Hill – Non-executive Director  
DJ Hyams – Non-executive Director  
ED Murray – Non-executive Director  
I Pettifor – Finance Director  
CR Rumsey – Managing Director  
CB Wagman – Non-executive Chairman  
DJW Young – Chief Executive

***Secretary***

Capita Company Secretarial Services Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

***Registered office***

Bryan Cave LLP  
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London  
EC2V 7AJ

***Head office and principal  
place of business***

Prince Frederick House  
37 Maddox Street  
London  
W1S 2PP

***Auditors***

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

***Legal advisers***

SJ Berwin LLP  
10 Queen Street  
London  
EC4R 1BE

***Valuer***

Allsop LLP  
33 Park Place  
Leeds  
LS1 2RY



## MILTON HOMES LIMITED

### CHIEF EXECUTIVE'S STATEMENT

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At the start of this, my first year as Chief Executive of the Milton Homes group, I have pleasure in presenting the Group's audited financial statements for the nine-month period ended 31 December 2007. The truncated reporting period accommodates our change of financial year from 31 March to 31 December, following the acquisition of Retirement Plus.

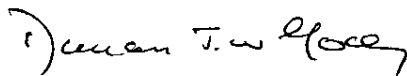
The undoubted highlight of the year was the acquisition in November of Retirement Plus Limited, a fellow leading home reversion plan provider and administrator, and its subsidiary Retirement Plus Property Plans Ltd, further consolidating the Group's position in the equity release market. The acquisition creates a group with equity release plan assets of approximately £100 million and one which enjoys a significant share of the home reversion plan market segment. Three months into the new financial year I am pleased to report that the acquired business has been fully integrated. Of the multitude of acquisitions that I have been involved with over the course of my career this must rank as one of the most easily integrated and shows every indication of proving to be highly successful.

I look forward to 2008 with great confidence. After a quiet period in the run up to Christmas and the New Year, the home reversion market appears relatively buoyant. The number of Key Facts Illustrations and Offers issued in recent weeks are close to, if not at, record levels for the Group. The Group's two strongly differentiated brands, Living Plus and Retirement Plus, benefit from growing market awareness, are proving themselves to be capable of satisfying a broad spectrum of the equity release requirements of individual homeowners, and benefit from a strong white labelling capability. Recent product launches have further complemented our product offering and have been well received in the market place. The significant prior-year investment in the Group's operating platform and infrastructure is starting to generate significant benefits. I firmly believe that the Group's strong brands, scaleable infrastructure and established relationships with key intermediaries position us well to enjoy further significant organic growth in 2008.

In addition to organic growth, the Group continues to evaluate other opportunities to invest either directly, or indirectly, in the reversionary residential property market. The Group remains on the look out for sound investment opportunities, as evidenced by our acquisition of 4% of the equity of Sovereign Reversions plc.

Although adverse stock market conditions caused the Board to decide to postpone the proposed AIM listing in early December, we fully intend to return to market when conditions prove to be more favourable. In the interim, the Group will, where practicable, comply with corporate governance best practice, appropriate to an AIM-listed company. In this regard, I am very pleased to welcome to the Board as Non-executive Directors Harry Hill, David Hyams and Edward Murray who bring a wealth of industry-specific experience and an enthusiasm for corporate governance. Colin Wagman, who has made an outstanding contribution to the development of the group to date, remains an invaluable member of the Board as Non-executive Chairman.

Finally, I would like to take this opportunity to thank the Group's employees whose passion, commitment and energy have been instrumental in a successful period for the Group. I look forward to continuing to work with them to realise the full value of the Group.



Duncan Young  
Chief Executive  
30 July 2008

# MILTON HOMES LIMITED

## DIRECTORS

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### **Colin Barry Wagman** (Non-executive Chairman, aged 61)

Colin was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1970. He practiced as a specialist in business structuring and tax planning and became a senior partner of his central London practice in the 1980s. His firm was a 'top ten' ranking London practice and is now part of Baker Tilly. In 1991 he became an adviser to British Land and was director of several quoted businesses during the 1990s. Since 1998 he has been Deputy Chairman of Delancey which has been the principal adviser to the Delancey property funds (two of which are DV3 Limited and DV4 Limited).

### **Duncan James Wilson Young** (Chief Executive, aged 56)

Duncan spent the first 12 years of his career at Hambros Bank rising to be the executive director in charge of the capital markets division. In 1986 he left to start a mortgage lender Household Mortgage Corporation which was sold to Abbey in 1994. Following this Duncan has worked on two further financial service launches – Savills Private Finance and Home Select Holdings, an equity share business funded by Daiwa Europe. Otherwise he has been active in financial service consultancy on new initiatives and merger and acquisition work. Duncan joined Retirement Plus in 2004 as its first managing director.

### **Christopher Robin Rumsey** (Managing Director, aged 52)

Chris qualified as a chartered surveyor in 1984 having gained experience in commercial and residential property with Milton Keynes Development Corporation and afterwards as development director of Burton Property Trust. In 1995 he joined the Dusco Group, a regulated property investment business known for its innovations, becoming its chief executive. In 2000 he led the successful management-buy-out of Dusco, allowing him to concentrate on his research into the potential for retirement-age individuals to gain more from their property ownership. In turn this led to the creation of Retirement Plus, which he co-founded in 2004. He is a director of SHIP.

### **Ian Pettifor** (Finance Director, aged 47)

Ian has extensive experience of developing and implementing strategy, of business transformation and growth, and of acquiring and integrating businesses, all within highly-regulated financial services companies. Ian joined Milton Homes in July 2007 after a short period at Dawnay Day where he was finance director for the group's international financial services and principal investments' activities. Prior to that, he spent 18 years with the Prudential-Bache group where as international chief finance officer he acquired extensive international financial services experience and product knowledge ranging from the plain vanilla to complex derivatives, and encompassing all aspects of the supply chain from product development to distribution and investment advisory. Ian was registered as an FSA CF21 Investment Adviser from 1996 to June 2007. Ian supplements his financial services skills with property experience acquired whilst with Abbey National in 1988.

### **Harry Hill** (Non-executive Director, aged 60)

Harry is currently the non-executive chairman of Countrywide plc where he was previously the group managing director until 2006. He qualified as a chartered surveyor in 1967 and was formerly managing director of Abbots (East Anglia) Limited. In 2001 he was appointed non-executive director of Jupiter Second Split plc. He joined the board of Countrywide Assured Group plc in February 1996.

### **David Hyams** (Non-executive Director, aged 62)

David has spent his entire career in the commercial and residential property sector having joined Conrad Ritblat & Co as a trainee in 1963. He qualified as a chartered surveyor in 1971. In 1986 he was appointed joint managing partner and was a director upon incorporation from 1991-2004. Since then until 2007, he was a director of Colliers CRE plc. He was chairman of residential asset manager CCRE Touchstone Limited from 2001 to 2006. He has many years experience in residential investment and management.

### **Edward Murray** (Non-executive Director, aged 56)

Edward Murray is a member of the Institute of Chartered Accountants of Scotland. With a background of over 20 years as a corporate finance practitioner with British Linen Bank, he brings to the Board experience of providing strategic financial advice to companies with a view to maximising shareholder value. Edward is finance consultant to Turcan Connell, private client solicitors and asset managers and is a non-executive director of Artemis AIM VCT 2 plc, Securities Trust of Scotland plc and W A Baxter & Sons (Holdings) Limited. He is also a member of the Audit Advisory Board of The Scottish Parliament.



## MILTON HOMES LIMITED

### DIRECTORS' REPORT

The Directors present the Annual Report, together with the financial statements and auditors' report of Milton Homes Limited (the "Company") for the period since incorporation on 28 December 2006 to 31 December 2007 and for its subsidiaries (collectively the "Group") for the nine-month period from 1 April 2007 to 31 December 2007

#### Principal activities

The principal activity of the Group is to own and manage residential property acquired through home reversion plans. The Group plans to maintain and develop a significant long-term exposure to the UK residential property market initially as a provider of both traditional and innovative home reversion plans. The Group's subsidiaries, Living Plus Limited and Retirement Plus Property Plans Limited, are authorised by The Financial Services Authority ("FSA") as home reversion plan providers and Retirement Plus Property Plans Limited is authorised as an arranger and administrator of home reversion plans.

The Group invests in home reversions arranged by FSA authorised intermediaries and also buys equity release assets in the secondary market.

#### Products and brands

The Group offers home reversion plans in the UK under two distinct brands for which the Directors believe there is a growing demand. The Living Plus brand offers traditional home reversion plans providing the maximum release with the minimum complexity, the Retirement Plus brand offers strongly differentiated and innovative reversion plans which aim to provide fair and flexible solutions to meet the equity release requirements of retired home owners. The Directors believe that the Living Plus and Retirement Plus brands provide a strong selling point in enabling customers to find a product to suit their needs.

The Group is committed to the independent financial intermediary distribution model and does not employ its own financial advisers, preferring to sell both Living Plus and Retirement Plus branded products through mortgage brokers and Independent Financial Advisers (together "IFAs"). In recognition of a perceived lack of awareness amongst the IFA community regarding the home reversion product in general, and the unique characteristics of the Retirement Plus branded products in particular, the Group employs a small business-to-business sales force to establish and develop relationships with key IFAs.

#### Results for the financial period

The financial statements show results for the Group for the period as follows

	9 months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
Income	<u>3,475</u>	<u>10,249</u>
(Loss)/Profit before tax	(7,729)	4,969
Tax credit for the period	<u>258</u>	-
(Loss)/Profit for the financial period, attributable to equity shareholders	<u>(7,471)</u>	<u>4,969</u>

The Directors do not recommend the payment of a dividend in respect of the current financial period (31 March 2007 £nil)

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

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### Business review and future developments

On 21 November 2007 the Company acquired Retirement Plus Limited, an FSA authorised home reversion plan administrator and arranger, together with its subsidiary, Retirement Plus Property Plans Limited (together "Retirement Plus"), an FSA authorised home reversion plan provider. Further details regarding this acquisition are provided in note 26 to the financial statements.

The Directors believe that the acquisition will further consolidate the Group's position in the equity release market, creating a group with equity release plan assets of some £100 million and with a significant share of the home reversion plan segment. It is anticipated that the acquisition will facilitate expansion of the Group's product range and increase the capacity to introduce new products in the future.

The retained loss for the year of £7,471,000 (31 March 2007: £4,969,000 profit) includes the costs of developing brand awareness and establishing the operating platform and infrastructure, a process which the Directors believe is now substantially complete, following the Retirement Plus acquisition. A decline in the House Price Index (source: HBOS Plc) from 11.29% (year to 31 March 2007) to 1.33% (nine months to 31 December 2007) resulted in a £6.4 million period-on-period reduction in the unrealised gain in revaluation of the Group's reversionary interests in investment property. Other significant factors in the reduction in pre-tax profit are £2.8 million of notional interest expense accelerated and charged in full to the income statement in the current financial period, following the early repayment of the 6-year interest-free shareholder debt in November 2007, £0.5 million of legal and professional costs incurred in the re-documentation of asset management and distribution agreements in the advent of FSA authorisation of the home reversion market and the amortisation of £0.6 million of finance costs following a group reorganisation.

Details of the principal risks and uncertainties facing the Group can be found in the Financial and Risk Review on pages 12 to 20. Details of the key performance indicators can be found in the same section.

The Directors believe that the Group's strong brands, scaleable infrastructure and established relationships with key intermediaries position it well to enjoy further significant growth in 2008.

### Investment portfolio

Consistent with its objective of developing and maintaining a significant long-term exposure to the UK residential property market, the Group continues to grow, both organically and through acquisition, its portfolio of home reversion plans which provide an efficient exposure to the UK housing market.

During the nine-month period to 31 December 2007, the Group acquired beneficial interests in a further £20 million of equity release assets (26% of the opening investment value) through the acquisition of Retirement Plus (£16.3 million) and the origination of new home reversion plans (£3.7 million). The underlying organic growth in the enlarged group is substantially higher as the Retirement Plus business grew its beneficial interest in equity release assets by £11.7 million in the seven-month period prior to acquisition in November 2007.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### Investment portfolio (continued)

The Group seeks to maintain a high-quality and well-diversified portfolio. In order to reduce portfolio risk, the Group aims to

- minimise its exposure to adverse regional property price cycles by holding a geographically well-diversified portfolio of reversionary interests in investment property,
- invest primarily in reversionary interests where the underlying properties are houses and bungalows and less so flats, as the Directors believe the valuations of the latter are more adversely impacted by an economic downturn,
- maintain a demographically well-balanced portfolio of reversionary interests so that there is a constant and smooth pattern of realisations, and
- reduce its concentration risk by restricting the investment in any one reversionary interest to less than 3% of the total portfolio

The tables below show the distribution of the investment value of the Group's reversionary interests in investment property by region and property type as at 31 December 2007

<u>Region</u>	<u>Living Plus</u> %	<u>Retirement Plus</u> %	<u>Weighted average</u> %
East Anglia	3	5	3
East Midlands	4	1	4
Greater London	12	18	13
North	2	1	2
North West	7	13	8
Scotland	-	1	-
South East	33	21	31
South West	18	22	19
Wales	5	7	6
West Midlands	9	7	8
Yorkshire	7	4	6
	<u>100%</u>	<u>100%</u>	<u>100%</u>

<u>Property type</u>	<u>Living Plus</u> %	<u>Retirement Plus</u> %	<u>Weighted average</u> %
House	58	65	60
Bungalow	25	24	24
Flat	16	11	15
Maisonette	1	-	1
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The total value of the Group's reversionary interests in investment property disclosed in the financial statements is the sum of the individual valuations attributed to each reversionary interest. This valuation approach ignores the premium that the disposal of a portfolio of reversionary assets currently commands in the secondary market.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

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### Substantial interests

The Directors are aware that at the date of this report, the following shareholders held beneficial interests in ordinary shares amounting to 3% or more of the issued ordinary share capital of the company

	<u>No. of shares</u>	<u>% of issued share capital</u>
DV3 Limited	26,985,901	90.09%
DV4 Limited	2,968,714	9.91%

### Financial risk management objectives and policies

As part of the process of effective Corporate Governance, the Group conducts a process for the assessment and mitigation of risks affecting the Group, particularly those which could inhibit achievement of Group strategic objectives. In addition, risk management focuses on operational, compliance and financial objectives.

The Board sets the overall risk appetite and philosophy of the Group. The Board establishes the parameters for risk appetite through setting strategic direction contributing to and ultimately approving annual business plans for the Group, and regularly reviewing and monitoring performance in relation to risk through half-yearly and ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Group is prepared to accept in order to deliver its business objectives.

Monitoring exposure to risk and uncertainty is an integral part of the Group's structured management processes. The Group's activities expose it to a number of financial risks including interest rate risk, credit risk, property market risk, longevity risk and liquidity risk. Details of how these risks are monitored and mitigated can be found in the Financial and Risk Review.

### Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements.

### Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

## MILTON HOMES LIMITED

### DIRECTORS' REPORT

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#### Employee involvement

The Group is committed to involving all employees in the performance and development of the Group. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development.

The Group encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Group through frequent email notices, internal notices and Board statements. The Group maintains a strong communications network and employees are encouraged, through its open-door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group.

#### Post balance sheet events

Details of significant events since the balance sheet date are disclosed in note 29 to the financial statements.

#### Directors

The current Directors are listed on page 2 with biographical details on page 4. The following changes have occurred since the beginning of the financial period:

	<u>Date of appointment</u>	<u>Date of resignation</u>
DV3 Administration UK 1 Limited	28 December 2006	24 January 2007
DV3 Administration UK 2 Limited	28 December 2006	24 January 2007
Andrew John Lewin	24 January 2007	28 November 2007
Anandh Indran Owen	24 January 2007	28 November 2007
Colin Barry Wagman	24 January 2007	-
Ian Pettifor	30 August 2007	-
Christopher Robin Rumsey	28 November 2007	-
Duncan James Wilson Young	28 November 2007	-
Edward Davidson Murray	15 January 2008	-
Harry Douglas Hill	15 January 2008	-
David Joseph Hyams	15 January 2008	-

The interests of Directors in the allotted share capital of the Company, or of any Group undertaking, at the beginning and end of the financial period is disclosed in the Remuneration Committee Report.

## **MILTON HOMES LIMITED**

### **DIRECTORS' REPORT**

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#### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs"), as adopted by the European Union

The Directors are required to prepare financial statements for each financial period which present fairly the financial position of the Group and of the Company and the financial performance and cash flows of the Group and of the Company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985

The Directors are also responsible for the system of internal control, safeguarding the assets of the Group and of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

#### **Going concern statement**

The Group's term credit facility with Barclays Bank Plc ("Barclays") was repaid in full on 3 July 2008 and the Group is currently in advanced discussions with a bank regarding a replacement facility. Until such time as a replacement facility is put in place, the ultimate parent company, DV3 Limited, and the other significant shareholder, DV4 Limited, have confirmed in a letter of comfort that they will provide interim financial support to enable the Group to meet its liabilities, as and when they fall due.

The Directors are satisfied, therefore, that the Group has adequate resources to continue its operations for the foreseeable future. The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

## **MILTON HOMES LIMITED**

### **DIRECTORS' REPORT**

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#### **Qualifying third party indemnity provisions for the benefit of Directors**

Under the Companies (Audit, Investigations and Community Enterprise) Act 2004 (which amends the Companies Act 1985), companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of any liability incurred by them in defending any proceedings (whether civil or criminal) in which judgment is given in their favour and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours.

#### **Auditors**

The Group is committed to ensuring appropriate independence in its relationship with external auditors and the key safeguards that have been established or are to be established are:

- The Finance Director monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the Audit Committee,
- The Audit Committee routinely benchmarks the level of the external audit fee against other comparable companies to ensure ongoing objectivity in the audit process, and
- The Finance Director monitors the level and nature of non-audit fees accruing to the external auditor, and specific assignments are discussed in advance with the external auditor and flagged for the approval of the Audit Committee as appropriate. The Audit Committee reviews, in aggregate, non-audit fees of this nature on an annual basis and considers implications for the objectivity and independence of the relationship with the external auditor.

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third party auditor for assignments with which the Group is involved.

In the case of each of the persons who is a Director at the time when the Directors' Report is approved, the following apply:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that a Director might reasonably be expected to have taken to be aware of all relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

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#### Accounting policies

The key accounting policies relevant to an understanding of the Group's business are as follows

- a) *Accounting standards* - the consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union, and comply with the Companies Act 1985
- b) *Property plan assets* - on account of differences in the structure of the property plans, the Retirement Plus branded property plans are recognised and accounted for in the financial statements as financial assets whilst the Living Plus branded property plans are accounted for and disclosed as investment properties. In both cases the assets are categorised as non-current

The Living Plus branded plan assets are recognised and accounted for as investment properties (in accordance with IAS40 Investment Properties) as the underlying property is held by the Group either as owner or as lessee, under a finance lease, to earn rentals and/or benefit from capital appreciation. In contrast, the Group is not considered to own the property underlying the Retirement Plus branded property plans as it does not have control over the asset, instead the Group has an option to acquire an increasing beneficial interest in the underlying property. Payments under the Retirement Plus branded plans are recognised as financial assets and accounted for at fair value through the income statement (in accordance with IAS39 Financial Instruments Recognition and Measurement)

Aside from the separate recognition in the financial statements, the key difference concerns origination costs, primarily commissions paid to IFAs and directly attributable property acquisition transaction costs. Such costs incurred in respect of the Retirement Plus branded plans are expensed to the income statement whilst those incurred in respect of the Living Plus branded plans are capitalised at the inception of the home reversion plan. This is in accordance with IAS39 which states that transaction costs that are directly attributable to the issue of financial assets cannot be included in the initial carrying amount of financial assets fair valued through the income statement.

Irrespective of whether they are disclosed as investment properties or financial assets, the investment values of the Group's reversionary interests are, subsequent to initial recognition at cost, measured at fair value with gains or losses so arising immediately recognised in the income statement. Fair value is determined for each asset on an individual basis and is based on active market prices, adjusted if necessary, for any difference in nature, location or condition of the underlying property. Fair values are based on valuations performed by an independent valuer that holds a recognised and relevant professional qualification and has recent experience in the location and category of the properties being valued.

As a result, except in periods of negligible or negative House Price Inflation ("HPI"), the different accounting treatments for origination costs of financial assets and investment properties is income statement neutral, the capitalisation of investment property origination costs results in a reduction in the revaluation gain on the subsequent first-time revaluation of the property plan equal to the value of the financial asset origination costs expensed to the income statement.



# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

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#### Accounting policies (continued)

As evidenced by transactions completed in 2007, valuing each property plan asset on a stand-alone basis and then aggregating the results yields a significantly lower valuation than that which would have been achieved by valuing the property plans on a portfolio basis. Portfolio disposals aborted in recent months would suggest that the realisability of such a premium is currently significantly less certain. The property plan valuations and recognised income disclosed in the financial statements do not reflect any portfolio premium.

- c) *Revenue recognition* - profits on the sale of reverted properties are recognised on completion of the sale and are included in income. Profits on disposal are calculated as net sales proceeds less the carrying amount of the properties determined with reference to the most recent valuation.

Gains or losses on the revaluation of investment properties and financial assets following the independent valuation of the Group's property portfolio are recognised in the period in which they arise. Rental income from reverted investment property is recognised in the income statement on a straight line basis over the unexpired lease term.

- d) *Derivative financial instruments* - the Group uses interest rate SWAPS and CAPS to hedge its exposure to adverse interest rate fluctuations, effectively Base Rate increases. Such derivative instruments are initially recognised at fair value on the date on which the SWAP or CAP contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of interest rate SWAP and CAP contracts is determined with reference to the market for similar instruments using information supplied by a firm of independent financial risk management and structured finance specialists.

Gains and losses arising from changes in the fair value of derivatives are taken to the income statement and included in finance income (gains) and finance expense (losses).

#### Performance measures

Commensurate with the Group's objective to be a leading provider and administrator of innovative and traditional home reversion plans, whilst at the same time providing shareholders with sustainable relatively low-risk capital growth, the Directors target long-term capital growth in the investment value of the property plan assets, together with the realisation of long-term cost efficiencies. Accordingly, the Directors employ the following key performance measures:

- a) Growth in recognised income,
- b) Growth in the number of property plan originations,
- c) Growth in the investment value of property plan assets,
- d) Proceeds from the sale and/or rental of reverted properties,
- e) The ratio of conversion of Key Facts Illustrations ("KFI") to offers to completions,
- f) Geographical property plan portfolio concentration,
- g) Demographical property plan portfolio concentration,
- h) Reduction in the ratio of administrative expenses to recognised income,
- i) Reduction in the ratio of administrative expenses to the investment value of property plan assets, and
- j) Growth in embedded value which incorporates the reversionary surplus of the property plan assets at current vacant possession values, net of provision for taxation.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

#### Capital structure

It is the Group's policy to maintain a strong capital base, expanding it as appropriate to support projected growth, and to utilise capital efficiently

In determining appropriate levels of capital, at both the Group and individual operating company level, the Directors are conscious of the need to maintain a prudent relationship between the underlying risks of the business and shareholder return, whilst at the same time satisfying financial covenants in bank funding facilities and the capital requirements of those companies subject to FSA supervision

The Group historically has employed a mixture of shareholder debt and equity capital in its capital base. The total capital of the Group has increased by 22% over the period from 31 March 2007 to 31 December 2007 from £23 million to £28 million, with the ratio of shareholder debt to equity reducing significantly. Shareholder debt of £22.7 million outstanding at the 13 November was converted into equity capital immediately prior to the group reorganisation and subsequent acquisition of the Retirement Plus group on 21 November 2007.

The Group finances its operations and investment activity from the following sources

- a) Equity,
- b) Shareholder debt,
- c) External bank borrowings, and
- d) Net proceeds from the sale of reverted properties

The Group borrows in Sterling at floating rates of interest based on LIBOR plus a margin and uses fixed for floating interest rate derivatives to eliminate a substantial part of its interest rate risk exposure. The Group uses long-term derivative contracts to substantially match the term profile of its funding with that of the underlying property plan assets financed.

#### Cash flow

Consistent with the approach adopted by members of its peers group, the Directors believe that adjusting the information disclosed within the Group Cash Flow Statement to derive net cash generated for investment provides a more meaningful indicator of the Group's financial performance, as follows

	9 months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
<i><u>Net cash generated for investment</u></i>		
Sale of investment properties	4,878	8,139
Net cash outflow from operations before changes in working capital	(2,312)	(1,408)
	<u>2,566</u>	<u>6,731</u>

Proceeds from the sale of property plan assets amount to £4.9 million in the period, providing total administrative expenses cover for the enlarged group. The annualised value of proceeds

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

#### Cash flow (continued)

received in the period was broadly in line with that received in the prior nine-month period and has been maintained in the first two months of the current financial year

The major factor contributing to the net cash outflow from operations has been the loss from operations, including the costs of developing brand awareness and establishing the operating platform and infrastructure, a process which, following the acquisition of Retirement Plus, the Directors believe is now substantially complete. The loss from operations excludes gains from the revaluation of property plan assets.

In each period the major application of funds has been the purchase of reversionary interests in property plan assets whilst the primary source of funds has been debt and equity contributed by the shareholders, as detailed in the table below.

	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
<i><u>Source and application of funds</u></i>		
<i>Major application of funds</i>		
Plan originations	3,557	6,236
<i>Major source of funds</i>		
Shareholders' equity	1,325	-
Net shareholder debt	1,999	3,886

#### Capitalisation and indebtedness

The following tables show the capitalisation and indebtedness of the Group as at 31 December 2007.

<i><u>Capitalisation and indebtedness</u></i>	£'000
Secured	25,975
Unguaranteed/unsecured	683
Total current debt	26,658
Secured	42,443
Unguaranteed/unsecured	864
Total non-current debt	43,307
Share capital and share premium	30,088
Capital reserves	5,449
Other reserves	(4,837)
Shareholders' equity	30,700

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

**Capitalisation and indebtedness (continued)**

<u>Net indebtedness</u>	£'000
Cash	4,392
Total liquidity	<u>4,392</u>
Current bank debt	(25,975)
Other current financial debt	(683)
Current financial debt	<u>(26,658)</u>
Net current financial indebtedness	<u>(22,266)</u>
Non-current bank loans	(42,443)
Other non-current financial debt	(864)
Non-current financial indebtedness	<u>(43,307)</u>
Net financial indebtedness	<u>(65,573)</u>

Notes

- (1) Shareholder's equity does not include the profit and loss account reserve
- (2) The above information is unaudited
- (3) The Group has no indirect or contingent indebtedness as at 31 December 2007

**Risk management**

The Board sets the overall risk appetite and philosophy of the Group. The Board establishes the parameters for risk appetite through setting strategic direction, contributing to and ultimately approving annual business plans for the Group, and regularly reviewing and monitoring performance in relation to risk through half-yearly and ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Group is prepared to accept in order to deliver its business objectives and is regularly assessed.

In assessing risk the Board utilises a consistent approach drawn from perceived best risk management practice which utilises a generic high-level framework and generic risk factors. This approach considers the potential impact of each risk together with the likelihood of the risk materialising at an "inherent" level, i.e. before considering any mitigating controls. The definition of these terms is as follows:

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

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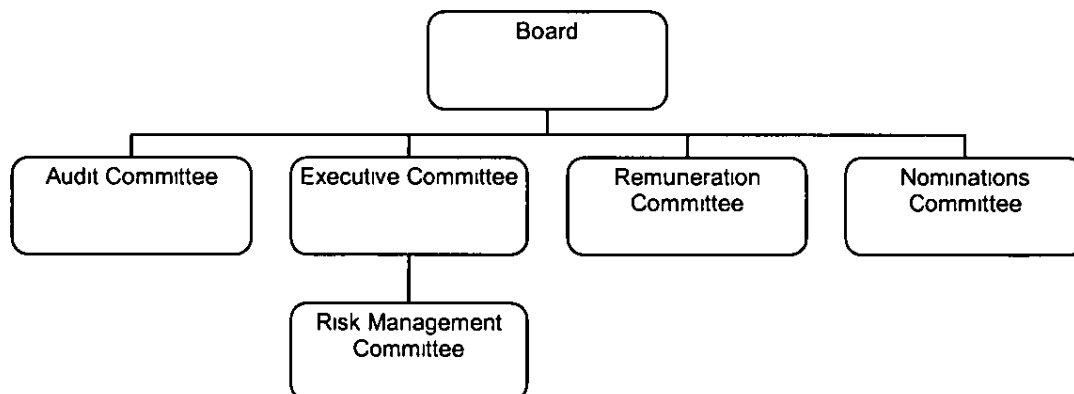
#### Risk management (continued)

- Impact - the extent to which the risk, if it materialised, would adversely effect the Group  
Factors that help define the impact rating may include financial effect, reputation impact, ability to achieve key objectives, etc
- Likelihood - the probability of a risk materialising over a predefined time period, currently set at one year. In some cases, frequency of occurrence may be considered as well

This assessment process results in a list of key business risks which have a high overall risk rating and, therefore, are those which most critically require controls to be implemented to manage or mitigate the underlying risks. Reassessment of key business risks is undertaken by executive management on a regular basis. The reassessment is not limited to the identified key business risks but takes into consideration both internal and external changes and includes those risks which would impact on the financial reporting process.

The Directors believe that this approach is consistent with FSA guidance for integrating and embedding risk and capital management practices and procedures.

The following Board and executive sub-committees support the Board in the risk management process.



The Audit Committee is a sub-committee of the Board comprising non-executive Directors whose purpose is to assist the Board in the effective discharge of its responsibilities for corporate governance, including financial reporting and accounting policies, risk assessment and internal control. The Audit Committee will monitor the ongoing process of the identification, evaluation and management of all significant risks throughout the Group. The Committee has no executive powers with regard to its recommendations and does not relieve the Directors of their responsibilities for these matters.

## **MILTON HOMES LIMITED DIRECTORS' REPORT FINANCIAL AND RISK REVIEW**

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### **Risk management (continued)**

The Remuneration Committee is a sub-committee of the Board comprising non-executive Directors with full power and authority to determine the Group's policy on the remuneration of the Chairman, Directors and other senior executives and to determine specific remuneration packages (including pension rights) and compensation packages on employment or termination of office for each of the Directors of the Group and other senior executives. With regard to risk management, the role of the Remuneration Committee is to ensure that the remuneration of the Directors and other senior executives attracts, motivates and retains high-calibre personnel, rewarding them for enhancing shareholder value, and ensures that contractual terms on termination are equitable to the individual and the Group and that failure is not rewarded.

The Executive Committee is an executive sub-committee set up by the Chief Executive ("CEO") to assist him in discharging his responsibilities to the Board for the running of the Group's businesses. The Executive Committee consists of the CEO, who is Chairman, the Managing Director and the Finance Director and such other senior executives as the CEO chooses to appoint.

The Nominations Committee is a sub-committee of the Board comprising non-executive Directors with full power and authority to conduct the formal selection of candidates and to propose to the Board new appointments at both the executive and non-executive director level. With regard to risk management, the role of the Nominations Committee is to ensure that the Group identifies, evaluates and subsequently selects for appointment directors and other senior executives possessing the requisite skills and experience to ensure that the Group continues to operate effectively following the replacement of the in situ incumbent. The Nominations Committee has not yet been convened.

The Risk Management Committee is an executive sub-committee set up by the CEO to assist him in discharging his responsibilities to the Board for monitoring and managing risk throughout the Group's businesses, ensuring that the Group's risk management framework is adequate in design and operates effectively. At present the Risk Management Committee is run as part of the Executive Committee and has not been constituted as a separate committee. The Risk Management Committee will recommend for approval limits, policies and procedures in respect of the effective management of all material risks, considering risks to the Group under the headings of

- a) Strategic objectives - that relate to high-level goals, aligned with and supporting the Group's mission,
- b) Operational objectives - that relate to the effectiveness and efficiency of the Group's operations, including performance and profitability goals and safeguarding resources against loss,
- c) Compliance objectives - that relate to adherence to the laws and regulations to which the Group is subject, and
- d) Financial objectives - that pertain both to the financial status of the Group, together with that of individual operating companies, and financial reporting, including the exposure to fraudulent or erroneous public disclosure of financial information.

The principal risks that the Group seeks to manage are as follows

- a) Interest rate risk is the risk of adverse changes (effectively increases) in market interest rates and arises primarily from the Group's long-term floating rate debt obligations.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

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**Risk management (continued)**

The Group uses fixed for floating interest rate derivatives to eliminate a substantial part of its interest rate risk exposure. The interest rate derivative contracts have quarterly fixed interest payments and floating interest receipts at LIBOR and are settled on a net basis.

- b) Liquidity risk is the risk that the Group is unable to meet its cash obligations as they fall due.

The Group monitors its liquidity risk by maintaining short-term and long-term cash flow forecasts which identify significant future cash flow requirements, primarily from debt repayment schedules and anticipated property acquisitions. Marketing and pipeline reports provided by intermediaries and available from the Group's application processing and tracking system provide insight into short-term cash inflows from the sale of reverted properties and cash outflows to fund individual property plan acquisitions.

The Group maintains a mixture of short-term and long-term facilities that ensure the Group has sufficient available funds to satisfy daily requirements and planned future property plan acquisitions. Committed third-party funding facilities are available to enable cash to be raised in a relatively short time-span. Over the period covered by these financial statements the Group has broadly had available at any one time £25 million of undrawn committed borrowing facilities.

In addition, the ultimate parent company, DV3 Limited, has historically provided long-term funding on arms-length commercial terms.

- c) Credit risk is the risk that the Group will incur losses as a result of the failure of customers and counterparties to meet their obligations and arises from holdings of cash and cash equivalents, loans and interest rate derivatives.

The Group is not subject to material levels of credit risk.

- d) Longevity risk is the risk that the Group, as a provider of equity release products, will incur financial loss because of the later-than-anticipated reversion of properties on account of experienced life expectancy improvements.

The Group seeks to mitigate this risk through its product-pricing policy and the use of conservative mortality assumptions. The services of professionally qualified, independent firms of actuaries are regularly utilised to review the mortality assumptions employed by the Group, monitoring them against external data, emerging trends and historic assumptions.

The Group regularly reviews the purchase of insurance protection against longevity risk and has insurance cover for excessive longevity risk built into the Living Plus impaired-life product.

- e) Property market risk is the risk that the investment value of the Group's property plan assets may experience lower than anticipated or indeed negative growth. The investment value of the Group's property plan assets is determined by changes in actuarial assumptions regarding mortality and morbidity rates and by changes in the market value of the underlying properties.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

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**Risk management (continued)**

The Group seeks to mitigate the level of property risk to which it is exposed by maintaining a portfolio that is well diversified both geographically and in terms of individual property values, and by seeking to avoid holding lower-quality property assets which are generally more adversely impacted by market downturns. The Group adheres to eligibility criteria regarding the type, condition and marketability of the underlying property when entering into a home reversion plan.

The Group's property market risk is further mitigated by the five-year floor in the Retirement Plus Property Plan which protects the Group from negative HPI in the first five years of the plan.

- f) Regulatory risk is the risk arising from a failure to satisfy the Group's obligations to its regulators, primarily the FSA, or to identify the requirement for and implement revised business processes in response to changes in the regulations to which the Group is subject.

The Group utilises the services of a firm of regulatory compliance consultants to both advise on relevant changes in the regulatory environment and to ensure that the Group's operational processes and procedures are fully compliant with FSA rules, regulations and guidance and that they operate effectively.

- g) Reputation risk is the risk of damage to the Group's trading name, brands and/or corporate identity arising from perceived or actual instances of unethical or disreputable business behaviour.

The Directors recognise that the success of the Group is heavily dependent upon demonstrating and maintaining consistently high ethical standards in all business dealings and in delivering a high-quality, hassle-free service to intermediaries and customers. The Directors believe that the Group's service ethos helps engender a passion for delivering a high-quality personalised service.

- h) Operational risk is the risk arising from the Group's people, processes, systems and external events.

The Group seeks to manage operational risk through the risk management framework articulated above.



## **MILTON HOMES LIMITED DIRECTORS' REPORT CORPORATE GOVERNANCE**

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The Directors recognise the value of the Principles of Good Governance and Code of Best Practice (the "Combined Code") and take appropriate measures to ensure that the Company complies with the Combined Code to the extent appropriate for a company of its size and nature of business. As the Company is not listed, it is neither required to comply with, nor report on its compliance with the Combined Code. The following disclosures explain the procedures the Company has adopted or is in the process of adopting.

### **Board composition**

The Directors acknowledge the need to segregate the responsibility for operating the Board from the management of the underlying business. Consequently, the roles of Non-executive Chairman and Chief Executive are separated.

The Board comprises seven members, four of whom are non-executive Directors, three of whom the Company views to be independent and free from any business or other relationship that could materially interfere with their judgment. Biographical details of all of the Directors are given on page 4.

The full composition of the Board is as follows:

- Non-executive Chairman
  - Colin Wagman
- Independent Non-executive Directors
  - Harry Hill,
  - David Hyams, and
  - Edward Murray
- Executive Directors
  - Chief Executive, Duncan Young,
  - Managing Director, Christopher Rumsey, and
  - Finance Director, Ian Pettifor

Edward Murray has been nominated as the Senior Independent Non-executive Director. In his capacity as Senior Independent Non-executive Director, Edward Murray is available to shareholders if they have reason for concern and perceive that contact through the normal channels of Non-executive Chairman or Chief Executive is either inappropriate or has failed to resolve their concern.

### **Governance framework**

The key features of the governance framework established by the Group are as follows:

- Documented terms of reference for the Board and each of its Committees,
- A schedule of Reserved Matters requiring Board approval, supported by clearly defined delegated authorities for the approval of significant or unusual transactions, and
- A risk management and control framework

### **Board responsibilities and effectiveness**

The Board is collectively responsible to shareholders for setting the direction of the business and monitoring the Group's ongoing affairs. It is also responsible for ensuring an effective internal control environment that identifies and manages appropriately the risks associated with the business set out in the Financial and Risk Review above.

## **MILTON HOMES LIMITED DIRECTORS' REPORT CORPORATE GOVERNANCE**

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### **Board responsibilities and effectiveness (continued)**

The Board demonstrates its commitment to the strategic direction and control of the Group by scheduling a series of meetings in the year. It can meet as necessary outside of this schedule to consider any urgent matters that may arise. It sets the strategic objectives of the Group, ensuring sufficient financial and human resources are in place to meet those aims. The Board is responsible for leading and controlling the Group and, in particular, for formulating, reviewing and approving the Group strategy, budget, property purchases above certain thresholds and senior personnel appointments.

The Board sets the Group's values and standards of business conduct and ensures that its obligations to clients, employees, suppliers, the community and other key stakeholders are understood and met. There is a formal schedule of matters reserved for consideration by the Board and other matters are delegated to Board committees.

The Board also considers regular reports from the Chief Executive, Finance Director and Managing Director. The Board is provided with complete, timely and relevant information to ensure that informed judgements are made in pursuit of the Group's objectives.

The Board reviews the performance of management in meeting business objectives, plans the succession of key executives, and determines appropriate remuneration levels through the Remuneration Committee, a committee of the Board. The operational management of the Group is delegated to the Executive Committee, which meets monthly.

The Non-executive Directors have a particular responsibility to challenge constructively and independently the business development plans that are proposed by executive management and monitor the performance of the management team in the delivery of agreed business objectives and targets. The Non-executive Chairman encourages and engages in an open dialogue with the Non-executive Directors in particular, who are at liberty to meet with him as a group or individually as they feel fit, without the presence of Executive Directors.

In order to facilitate the discharge of the responsibilities outlined above the Board has appointed the following committees:

#### **Audit Committee**

This committee, which comprises Colin Wagman, Harry Hill, David Hyams and Edward Murray, will review the annual financial statements, internal control matters and the scope and effectiveness of external audit. Edward Murray is considered by the Board to have recent relevant financial experience for the purposes of the Combined Code.

The Board acknowledges that the Chairman should not sit on the Audit Committee. However, due to the size and nature of its business, the Company believes that it is in the best interests of the shareholders for the activities of its Committees to be transparent to all the Directors.

The Audit Committee will meet formally at least twice a year. The Chief Executive, the Finance Director and other representatives of senior management and the external auditors will normally attend meetings, though attendance is at the invitation of the Committee. The external auditors have unrestricted access to the Committee.

## **MILTON HOMES LIMITED DIRECTORS' REPORT CORPORATE GOVERNANCE**

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### **Audit Committee (continued)**

In addition, the Committee will review the necessity for the establishment of an internal audit function. Given the size of the Group and the close involvement of senior management in day-to-day operations, there is currently no requirement for such a function.

### **Remuneration Committee**

This committee, which comprises Harry Hill, David Hyams and Edward Murray, determines the remuneration of the Executive Directors and senior management. Non-executive Directors' fees are considered and agreed by the Board as a whole.

The Remuneration Committee meets as required and at least once a year. The Committee considers all material elements of remuneration policy, the remuneration and incentives of Executive Directors and senior employees with reference to independent remuneration research and professional advice and makes recommendations to the Board on the framework for executive remuneration, together with its associated cost. The Board is subsequently responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. A Director of the Company is not permitted, under the Articles, to vote on his own terms and conditions of remuneration.

### **Nominations Committee**

The Board has constituted a Nominations Committee comprising Colin Wagman, Harry Hill, David Hyams and Edward Murray. The Committee will meet on an ad hoc basis as required and is responsible for reviewing the size, composition and balance of the Board, considering succession planning for the Directors and senior executives, and the appointment of additional and replacement Directors. In fulfilling these responsibilities the Nominations Committee will carry out the selection process for the appointment of Executive and Non-executive Directors to the Board and senior management positions, and propose names for approval by the full Board. The Committee will invite Executive Directors and other senior executives and external advisers to attend meetings at its discretion.

### **Executive Committee**

The Executive Committee is a committee established by the Chief Executive to assist him to discharge his responsibilities to the Board for the running of the Group's businesses. The Committee is chaired by the Chief Executive and comprises the Managing Director, the Finance Director and the Operations Director, with the Group Financial Controller in attendance as the Committee's secretary. Other members of senior management are invited to attend at the discretion of the Chief Executive.

The Committee generally meets monthly to discuss current trading and strategy, business developments (including the competitive landscape, product development and corporate transactions), financial matters, operational issues, marketing, regulatory and compliance issues, risk management and human resources.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

#### Directors' attendance record

The attendance record of each of the Directors at scheduled Board and Committee meetings for the period from 21 November 2007 (the date the enlarged group including Retirement Plus was established) to 31 December 2007 is as follows

	<u>Board</u>	<u>Executive Committee</u>	<u>Audit Committee</u>	<u>Nominations Committee</u>	<u>Remuneration Committee</u>
<i>Non-executive</i>					
HD Hill	1(1)	n/a	-	-	-
DJ Hyams	1(1)	n/a	-	-	-
ED Murray	1(1)	n/a	-	-	-
CB Wagman	1(1)	n/a	-	-	-
<i>Executive</i>					
I Pettifor	1(1)	1(1)	n/a	n/a	n/a
CR Rumsey	1(1)	1(1)	n/a	n/a	n/a
DJW Young	1(1)	1(1)	n/a	n/a	n/a

The numbers in brackets represent the maximum number of meetings in the period during which the Director was a Board and Committee member

#### Director induction and professional development

On joining the Board, all Directors receive an appropriate induction programme. All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board, at the Group's expense. The Company Secretary, Capita Company Secretarial Services Limited, is available to all Directors and is responsible for ensuring that all Group Board procedures are complied with.

During the year, the Directors received appropriate ongoing briefings and information, including updates on governance and regulatory issues, to enable them to perform their roles.

Adequate directors and officer's liability insurance is maintained.

#### Board performance evaluation

The Company believes in the principles of board performance evaluation and utilises the services of Capita Company Secretarial Services Limited to review the effectiveness of the Board and its Directors annually. It is intended that the various Committees and the Board conduct the review via a self-assessment exercise to determine whether their terms of reference have been satisfactorily fulfilled and how their processes and methods could be improved.

The performance of individual Executive Directors is to be appraised annually by the Chief Executive, to whom they report. The performance of the Non-executive Chairman is to be reviewed by the Non-executive Directors, taking into account the views of the Executive Directors.

The performance review of the Chief Executive is to be conducted by the Non-executive Chairman, taking into account the views of other Directors.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
CORPORATE GOVERNANCE**

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**Board performance evaluation (continued)**

Non-executive Directors' performance is to be reviewed by the Non-executive Chairman, taking into account the views of other Directors

**Going concern**

The Directors' statement on going concern is included in the Directors' Report on page 10

## **MILTON HOMES LIMITED DIRECTORS' REPORT CORPORATE SOCIAL RESPONSIBILITY**

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The Directors and the Group are committed to high ethical standards in all their dealings. The subsidiary company, Retirement Plus Limited, as an FSA authorised arranger and administrator of home reversion plans is reliant upon its ability to build a long-term relationship of trust and high-quality service with elderly homeowners.

In observing the FSA's high-level principle of Treating Customers Fairly, the Directors believe the delivery of appropriate advice is critical. In the case of equity release, it is important that homeowners are advised against taking out an equity release plan if there are better options available, such as downsizing to a smaller home. Accordingly, the Group will only sell its products through FSA authorised mortgage brokers and Independent Financial Advisers (together "IFAs"). The Group is committed to furthering awareness amongst the IFA community regarding home reversion products in general and has held and is holding a number of training seminars for this purpose in 2008. The Group employs a small business-to-business sales force to continue this process and to maintain and develop relationships with key IFAs.

The Group's home reversion plans also continue to comply with the code of practice of Safe Home Income Plans ("SHIP"). Occupants of properties held under the Group's home reversion plans have access to the Group's skilled staff who assist them with any problems associated with the maintenance of their homes.

The Group's Managing Director, Christopher Rumsey, is a member of the SHIP Board. Through its active participation in SHIP and other bodies, the Group has assisted with the development of industry best practice in a changing regulatory environment. In addition, SHIP has its own Reversions Complaints Board which acts independently of the FSA.

Although the equity release market is fully regulated by the FSA, homeowners contemplating an equity release plan are advised only to consider plans provided by members of SHIP. Its members commit to a voluntary code which incorporates minimum product standards and other safeguards for consumers not covered by FSA regulation, including

- a no negative equity guarantee,
- security of tenure for life,
- the ability to move home without financial penalty,
- clear presentation of plans, and
- a requirement that no plan may be taken out without the customer having first received independent legal advice.

### **Charitable and political donations**

During the period charitable donations amounted to £100 (31 March 2007: £nil). No political contributions were made during the period (31 March 2007: £nil).

### **Environment**

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. Initiatives designed to minimise the Group's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

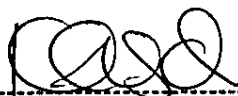
**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
CORPORATE SOCIAL RESPONSIBILITY**

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**Payment of creditors**

The Company aims to pay creditors in accordance with the creditors' contractual terms, agreed at the time of entering into new business relationships and transactions. A significant proportion of the Group's trade payables balance relates to directly attributable transaction costs that are capitalised as part of the acquisition cost of investment properties. This, together with the low value of expenditure, means that days' purchases outstanding in trade payables is not a meaningful measure for the Company.

Approved by the Board of Directors  
and signed by order of the Board



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*For and on behalf of Capita Company Secretarial Services Ltd  
Secretary*

Capita Company Secretarial  
Services Limited  
Company Secretary  
30 July 2008

## MILTON HOMES LIMITED

### REMUNERATION COMMITTEE REPORT

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The Remuneration Committee is a committee of the Board with terms of reference agreed with the Board. Its purpose is to determine the terms of employment and the remuneration of the Executive Directors and other senior management. The terms of reference of the Committee are available on request.

The Committee was established in January 2008 and from that point was made up of the following Non-executive directors: Colin Wagman, Harry Hill, David Hyams and Edward Murray. With the exception of Colin Wagman, all Committee members are considered independent Non-executive Directors as prescribed by the Combined Code.

The Committee consults the Chief Executive about proposals for remuneration of the Executive Directors and other senior management, except when issues relating to his own remuneration are concerned.

Mr Alan Judes was appointed as adviser by the Committee to provide independent advice on executive remuneration and the structure of share schemes and acted in this capacity throughout the last quarter of 2007. Aside from the legal adviser to the Company, SJ Berwin, no other person or entity has provided material assistance to the Committee during the period.

#### *Directors' remuneration*

##### *a) Overall policy*

The Committee's overall policy is to provide a remuneration structure with a strong performance-related element which it feels is justified by the nature of the Group's activities and its developing characteristics. The current policy aims to provide a balance between fixed and variable compensation for each Executive Director. The use of share-based incentive plans is designed to align the long-term interests of Executive Directors with those of the Company and provide exceptional rewards only for exceptional performance.

The Committee is satisfied that the remuneration policy is appropriate, particularly with regard to total executive remuneration and Group performance. The Committee plans to continue to pursue this approach in its future remuneration policy. Consistent with this principle, approximately one half of an executive's target total remuneration is performance-linked and weighted to the long-term. This percentage would increase in the case of performance above target.

The remuneration package for the Executive Directors consists of salary, annual discretionary bonus, long term incentives, contributions to pension arrangements and other benefits. When determining the package for individual Executive Directors, the Remuneration Committee takes into consideration the following:

- the size and complexity of the Executive Director's role,
- remuneration packages for comparable roles in peer-group companies, and
- the performance of the individual Executive director and of the Group as a whole.



## MILTON HOMES LIMITED

### REMUNERATION COMMITTEE REPORT

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#### *b) Salary and benefits*

The Committee regularly reviews the salaries and benefits of the Executive Directors. The policy adopted by the Committee requires that basic salaries and benefits be sufficient to attract and retain high-calibre executives.

In addition to basic salary and a discretionary cash bonus, Executive Directors receive typical benefits in kind (principally life assurance and private medical insurance), contributions to individual pension arrangements and participation in the Company's Long Term Incentive Plan.

#### *c) Annual discretionary cash bonus*

The Executive Directors are eligible to participate in the annual discretionary cash bonus award scheme operated for all Group employees. The level of award is dependent upon the performance of the Group and of the individual Executive Director. The Chairman and Chief Executive propose, for consideration and approval by the Remuneration Committee, awards for individual Executive Directors. The Committee intends that under normal market conditions the maximum cash bonus that can be awarded in any year to Executive Directors is 30% of salary.

#### *d) Long Term Incentive Plan*

The Committee approved a Long Term Incentive Plan ("the Plan") in January 2008. The Plan takes the form of a performance share plan open to all employees or Executive Directors of the Company or any of its subsidiaries. Under the Plan, participants are granted awards which constitute a right to be delivered shares in the Company at the end of a three-year performance period, subject to the satisfaction of certain performance conditions and the participant remaining an employee of the Group.

At the point of vesting the participants receive shares for nil consideration and also receive an amount in cash or additional shares equal to any dividends that would have been paid between the award date and the vesting date.

Awards are limited in any one financial year to 100% of a participant's gross salary.

Performance conditions shall be determined by the Remuneration Committee. It is envisaged that over a three-year period a compound annual growth rate in net asset value per share of 6% will be required for 100% of the shares in the award to vest. At a compound annual growth rate of 4% half the award would vest, with pro-rata vesting for performance between 4% and 6%. If compound annual growth in Net Asset Value per share is less than 4% then the award would lapse.

The Company believes that compound annual growth in net asset value per share is the most appropriate performance condition as it is a key indicator of shareholder value creation.

#### *e) Non-executive directorships*

The Company recognises that exposure of its Executive Directors to other boards can broaden their experience and knowledge. Executive Directors are, therefore, allowed to accept one non-executive appointment subject to the Board's approval. Currently no such non-executive directorships are held by the Executive Directors. Any fees for such external appointments would be payable to the Company.

# MILTON HOMES LIMITED

## REMUNERATION COMMITTEE REPORT

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### *f) Non-executive Directors' fees*

Non-executive Directors' fees are reviewed annually. The remuneration of Non-executive Directors is proposed by the Chairman and Chief Executive and approved by the Board.

The Non-executive Chairman's remuneration is proposed by the Chief Executive, following consultation with the other Non-executive Directors, reviewed by the Remuneration Committee and ultimately approved by the Board.

### *g) Service contracts*

Service contracts with each of the Executive Directors are currently being finalised and are in substantially final form. The contracts include provisions relating to, amongst other items, role and responsibilities, remuneration and other benefits, restrictive covenants during and after employment, termination, confidentiality, data protection and record retention and use of the Group's assets. The period of notice is twelve months either way, with the Company able to pay remuneration in lieu of notice. At termination, other than for cause or voluntary resignation or similar reasons, the Company may make a payment to the Executive Director of up to the value of twelve months' salary, pension contributions, life assurance cover and medical benefits. The Remuneration Committee believes that these arrangements strike a fair balance between the interests of the Company and the need to provide suitable terms of employment to attract and retain the key executives upon whom the success of the Group depends.

Each of the Non-executive Directors entered into a letter of appointment dated 15 January 2008 with the Company which records the terms of their appointment as Non-executive Directors and, in the case of Colin Wagman, as Chairman of the Company (together the "Letters"). The Letters, which are all in substantially similar form, include provisions relating to, amongst other items, duties and time commitment, remuneration, confidentiality, conflicts of interest, access to independent advice, indemnities and directors' and officers' liability insurance.

Details of the contracts are set out below.

<u>Executive Directors</u>	<u>Date of contract</u>	<u>Unexpired term</u>	<u>Notice period (months)</u>
Mr Duncan Young	-	n/a	12
Mr Christopher Rumsey	-	n/a	12
Mr Ian Pettifor	-	n/a	12
<u>Non-executive Directors</u>			
Mr Colin Wagman	15 January 2008	3 years	1
Mr Harry Hill	15 January 2008	3 years	1
Mr David Hyams	15 January 2008	3 years	1
Mr Edward Murray	15 January 2008	3 years	1

# MILTON HOMES LIMITED

## REMUNERATION COMMITTEE REPORT

### Information subject to audit

#### *Directors' remuneration*

The aggregate remuneration of the Executive Directors is as follows

	31 December 2007 £'000	31 March 2007 £'000
Management remuneration	86	-
Pension contributions	9	-
	95	-

The remuneration of the highest-paid Director is not separately disclosed as the aggregate remuneration of the Directors did not exceed £200,000

The remuneration of the Non-executive Directors from their appointment on 15 January 2008 is as follows

	<u>Basic fee</u>	<u>Chairman of a Board Committee</u>	<u>Total</u>
<i>Non-executives</i>			
Mr HD Hill	£17,500	-	£17,500
Mr DJ Hyams	£17,500	-	£17,500
Mr ED Murray	£17,500	-	£17,500
Mr CB Wagman	£50,000	-	£50,000

### Information not subject to audit

#### *Directors' interests*

No Director had any interest in the allotted share capital of the Company, or of any Group undertaking, at the beginning or end of the financial period

There have been no changes in Directors' interests between the end of the financial period and the date of the Remuneration Report

#### *Share option schemes*

As at 31 December 2007, no awards have been made under the Long Term Incentive Plan

#### *Pensions*

The Company makes contributions to the Self Invested Personal Pension plan arrangements of the Executive Directors at the rate of 15% of basic salary

The Report has been approved by the Board and has been signed on behalf of the Board by

  
CB Wagman  
Non-executive Chairman  
30 July 2008

## **MILTON HOMES LIMITED**

### **AUDIT COMMITTEE REPORT**

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The Committee was established in January 2008 and comprises a minimum of three members, the majority of whom are independent Non-executive Directors. The Committee currently comprises Colin Wagman, Harry Hill, David Hyams and Edward Murray. At least one member of the Audit Committee has recent and relevant financial experience. The Audit Committee will meet as required, but normally at least half-yearly. The Chief Executive and Finance Director are required, on request, to attend meetings of the Audit Committee and the Audit Committee will, at least annually, meet the external auditors, without executive management present, to discuss matters relating to its remit and issues arising from audits.

The Audit Committee is responsible for reviewing accounting procedures and controls and for the publication of the Group's financial statements. The Committee will also review risk management and the effectiveness of the Group's system of internal financial control. The Committee will receive reports from, and consult with, the Company's external auditors. It will also consider matters relating to the appointment, independence and objectivity of the auditors and review the results and effectiveness of the annual audit.

#### **Internal control and risk management**

The Group maintains a system of internal financial control and risk management in order to provide assurance of

- the maintenance of proper accounting records and the reliability of financial information used within the business and for publication,
- the safeguarding of assets against unauthorised use or disposition, and
- the assessment of areas of risk and how best to manage them in order to achieve the Group's objectives

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The Board regularly reviews the effectiveness of the Group's system of internal controls which include

- a management reporting system that focuses on key performance indicators,
- cash flow forecasting processes and procedures that include a weekly evaluation of the Group's working capital position and financial commitments,
- regular reporting to the Board on financial, treasury and regulatory matters,
- a detailed authorisation process to ensure that no commitments are entered into without appropriate authorisation and that no Director participates in any decision of the Group in which he has an interest, and
- ensuring that the business risks to which the Group is exposed are reviewed on a regular basis

Further details on the Group's systems of internal control and risk management procedures can be found in the Financial and Risk Review.

**MILTON HOMES LIMITED**  
**AUDIT COMMITTEE REPORT**

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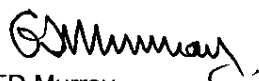
**External auditors**

The Group has policies aimed at safeguarding and supporting the independence and objectivity of the external auditors. The policies regulate the appointment of former audit employees to senior finance positions in the Group and set out the approach to be taken by the Group when using the services of the external auditors. It distinguishes between those matters where an independent view is required, such as audit and assurance work, and other advisory services. In addition to statutory audits, audit and assurance work includes reviewing statutory returns, fraud investigations, control reviews and audit reviews.

Annually, the Committee reviews a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards.

Details of the fees paid to the external auditors for both audit and non-audit services during the year are provided in note 5 to the financial statements.

The Report has been approved by the Board and has been signed on behalf of the Board by



ED Murray  
Non-executive Director  
30 July 2008

## **MILTON HOMES LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS**

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We have audited the financial statements of Milton Homes Limited (the "Company") for the period ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the Company Cash Flow Statement and the related notes to the financial statements 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 and consider whether it is consistent with the audited financial statements. The other information comprises only the Chief Executive's Statement, the Directors' Report, the Remuneration Committee Report and the Audit Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **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 Company's circumstances, consistently applied and adequately disclosed.

## MILTON HOMES LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

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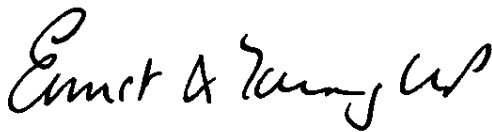
#### Basis of audit opinion (continued)

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, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and of the Company as at 31 December 2007 and of the Group's loss for the period then ended,
- the Company's financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



Ernst & Young LLP  
Registered Auditors  
London

12 September 2008

**MILTON HOMES LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
for the period ended 31 December 2007

	Notes	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
<b>Income</b>			
Profit on disposal of investment property		893	1,464
Gain on revaluation of investment property		2,188	8,617
Other income	4	394	168
		<u>3,475</u>	<u>10,249</u>
Administrative expenses		3,892	2,016
<b>Operating (loss)/profit</b>	5	(417)	8,233
Finance income	7	352	2,177
Finance expense	8	7,664	5,441
<b>(Loss)/Profit before tax</b>		<u>(7,729)</u>	<u>4,969</u>
Tax credit for the period	9	258	-
<b>(Loss)/Profit for the period attributable to equity shareholders</b>		<u>(7,471)</u>	<u>4,969</u>

The operating profit for the current and preceding financial period arises from continuing activities



**MILTON HOMES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the period ended 31 December 2007

	Share capital £'000	Share premium reserve £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
As at 1 April 2006	-	-	3,348	-	(227)	3,121
Capital contribution	-	-	1,081	-	-	1,081
Profit for the year	-	-	-	-	4,969	4,969
<b>As at 31 March 2007</b>	<b>-</b>	<b>-</b>	<b>4,429</b>	<b>-</b>	<b>4,742</b>	<b>9,171</b>
As at 1 April 2007	-	-	4,429	-	4,742	9,171
Capital contribution	-	-	1,020	-	-	1,020
Issue of shares	29,955	133	-	-	-	30,088
Pooling of interests	-	-	-	(4,837)	-	(4,837)
Dividends to minority interest	-	-	-	-	(1)	(1)
Loss for the period	-	-	-	-	(7,471)	(7,471)
<b>As at 31 December 2007</b>	<b>29,955</b>	<b>133</b>	<b>5,449</b>	<b>(4,837)</b>	<b>(2,730)</b>	<b>27,970</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
for the period ended 31 December 2007

	Share capital £'000	Share premium reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Upon incorporation	-	-	-	-	-
Issue of shares	29,955	133	-	-	30,088
Profit for the period	-	-	-	61	61
Capital contribution	-	-	796	-	796
<b>As at 31 December 2007</b>	<b>29,955</b>	<b>133</b>	<b>796</b>	<b>61</b>	<b>30,945</b>

**MILTON HOMES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
as at 31 December 2007

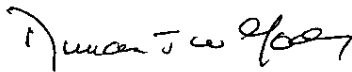
	Notes	31 December 2007 £'000	31 March 2007 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	10	76,631	76,216
Financial assets – equity release plans	11	18,070	-
Property, plant and equipment	13	95	-
Intangible assets	14	117	-
Derivative financial instruments	15	49	180
Financial assets at fair value through profit or loss	16	530	-
		<b>95,492</b>	<b>76,396</b>
<b>Current assets</b>			
Trade and other receivables	17	2,861	119
Loans	18	762	762
Cash and cash equivalents		4,392	6,786
		<b>8,015</b>	<b>7,667</b>
<b>Total assets</b>		<b>103,507</b>	<b>84,063</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	5,329	1,723
Interest bearing loans and borrowings	20	26,658	27,863
		<b>31,987</b>	<b>29,586</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	15	243	300
Interest bearing loans and borrowings	20	43,307	45,006
		<b>43,550</b>	<b>45,306</b>
<b>Total liabilities</b>		<b>75,537</b>	<b>74,892</b>
<b>Total net assets</b>		<b>27,970</b>	<b>9,171</b>
<b>EQUITY</b>			
Share capital	22	29,955	-
Share premium reserve	23	133	-
Capital reserve	23	5,449	4,429
Other reserves	23	(4,837)	-
Retained earnings	23	(2,730)	4,742
<b>Total equity</b>		<b>27,970</b>	<b>9,171</b>

**MILTON HOMES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 2007**

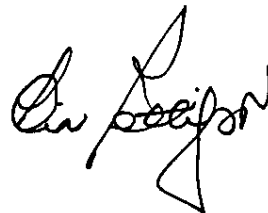
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These financial statements were approved by the Board of Directors and authorised for issue on 30 July 2008

Signed on behalf of the Board of Directors



DJW Young  
Director



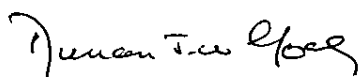
I Pettifor  
Director

**MILTON HOMES LIMITED**  
**COMPANY BALANCE SHEET**  
as at 31 December 2007

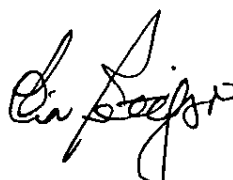
	Notes	2007 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in subsidiary undertakings	12	13,498
Financial assets at fair value through profit or loss	16	530
Loans	18	18,352
		<u>32,380</u>
<b>Current assets</b>		
Trade and other receivables	17	2,955
Cash and cash equivalents		47
		<u>3,002</u>
<b>Total assets</b>		<u><u>35,382</u></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	19	3,872
Interest bearing loans and borrowings	20	565
<b>Total liabilities</b>		<u>4,437</u>
<b>Total net assets</b>		<u><u>30,945</u></u>
<b>EQUITY</b>		
Share capital	22	29,955
Share premium reserve	23	133
Capital reserve	23	796
Retained earnings	23	61
<b>Total equity</b>		<u><u>30,945</u></u>

These financial statements were approved by the Board of Directors and authorised for issue on 30 July 2008

Signed on behalf of the Board of Directors



DJW Young  
Director



I Pettifor  
Director

**MILTON HOMES LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
for the period ended 31 December 2007

	Notes	Nine months ended 31 December 2007 £'000	Year Ended 31 March 2007 £'000
<b>Operating activities</b>			
(Loss)/Profit for the period/year		(7,471)	4,969
Tax credit on continuing activities		(258)	-
Increase in fair value of investment properties	10	(2,188)	(8,617)
Realised gain on disposal of investment property		(893)	(1,464)
Increase in fair value of equity release assets	11	(246)	-
Equity Transfer Rate income	11	(82)	-
Loss on revaluation of financial assets at fair value through profit or loss	16	31	-
Finance income	7	(352)	(2,177)
Finance expense	8	7,664	5,441
Depreciation of property, plant and equipment	13	9	-
Amortisation of intangible assets	14	5	-
Impairment on loans	18	58	440
Impairment of goodwill	26	1,411	-
<b>Net cash outflow before changes in working capital</b>		<b>(2,312)</b>	<b>(1,408)</b>
(Increase)/decrease in trade and other receivables		(2,259)	174
Increase in trade and other payables		2,848	874
<b>Net cash outflow from operating activities</b>		<b>(1,723)</b>	<b>(360)</b>
<b>Investing activities</b>			
Interest received	7	76	235
Proceeds from sale of investment property		4,878	8,139
Purchase of investment property		(2,115)	(6,236)
Purchase of equity release assets	11	(1,442)	-
Purchase of property, plant and equipment	13	(49)	-
Purchase of intangible assets	14	(12)	-
Purchase of financial assets at fair value through profit or loss	16	(561)	-
Loans to asset manager		-	(630)
Acquisition of Group undertakings (net of cash acquired)	25	52	-
<b>Net cash inflow from investing activities</b>		<b>827</b>	<b>1,508</b>
<b>Financing activities</b>			
Proceeds from issue of shares	22	1,325	-
Dividends paid		(1)	-
Interest paid		(3,278)	(4,146)
Proceeds from interest rate SWAP	7	98	-
Bank loan facility fees		(31)	(25)
New debt drawn down from banks		4,020	6,964
Net debt drawn down from parent companies		1,999	3,886
Repayment of borrowings		(5,706)	(5,863)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(1,574)</b>	<b>816</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>		<b>(2,470)</b>	<b>1,964</b>
Cash and cash equivalents at the beginning of the period		6,786	4,822
<b>Cash and cash equivalents at the end of the period</b>	24	<b>4,316</b>	<b>6,786</b>

**MILTON HOMES LIMITED**  
**COMPANY CASH FLOW STATEMENT**  
**for the period ended 31 December 2007**

	Notes	2007 £'000
<b>Operating activities</b>		
Profit for the period		61
Loss on revaluation of fair valued financial assets	16	31
Loss on disposal of subsidiary	12	4,837
Distribution received from subsidiary	12	(5,776)
Finance income		(13)
Finance expense		796
<b>Net cash outflow before changes in working capital</b>		<b>(64)</b>
Increase in trade and other receivables	17	(2,955)
Increase in trade and other payables	19	2,872
<b>Net cash outflow from operating activities</b>		<b>(147)</b>
<b>Investing activities</b>		
Purchase of financial assets at fair value through profit or loss	16	(561)
Acquisition of subsidiary undertakings	25	(99)
Loans to subsidiary companies		(1,150)
<b>Net cash outflow from investing activities</b>		<b>(1,810)</b>
<b>Financing activities</b>		
New debt drawn down from parent companies		679
Proceeds from the issue of shares	22	1,325
<b>Net cash inflow from financing activities</b>		<b>2,004</b>
<b>Net increase in cash and cash equivalents</b>		<b>47</b>
Cash and cash equivalents at beginning of the period		-
<b>Cash and cash equivalents at end of the period</b>	24	<b>47</b>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2007**

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**1 Accounting policies**

Milton Homes Limited (the "Company") is a company registered in England and Wales. The consolidated financial statements of the Company for the nine months to 31 December 2007 comprise the Company and its subsidiaries (together the "Group").

The Group and Company's financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of IASB (together "IFRS") as adopted by the European Union, and comply with the Companies Act 1985.

Following the acquisition of Retirement Plus Limited and its subsidiary company, Retirement Plus Property Plans Limited, the Group has elected to change its Accounting Reference Date from 31 March 2007 to 31 December 2007. The comparative amounts for the period ended 31 March 2007 for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable as they cover a financial period longer than nine months.

The first year of financial reporting for Milton Homes Limited was from 28 December 2006, the date of incorporation, to 31 December 2007. Thereafter, the Company will report on an annual basis. There are no comparative amounts to report.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are prepared in Sterling and all values are rounded to the nearest pounds thousands except where otherwise indicated.

**Changes in accounting policy**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group in the current or prior periods. In certain cases, they did, however, give rise to additional disclosures:

- IFRS 7 Financial Instruments Disclosures
- IAS 1 Amendment – Presentation of Financial Statements Capital Disclosures
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2007**

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**1. Accounting policies (continued)**

The principal effects of these new and amended standards and interpretations are as follows

*IFRS 7 Financial Instruments Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where necessary.

*IAS 1 Presentation of Financial Statements*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in the capital management section of the Financial and Risk Review.

*IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As no awards have been made under the share-based incentive plan introduced in January 2008, the interpretation has no impact on the financial position or performance of the Group.

*IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is that date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has no impact on the financial position or performance of the Group.

*IFRIC 10 Interim Financial Reporting and Impairment*

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group does not prepare interim financial accounts statements, this interpretation had no impact on the financial position or performance of the Group.

*IFRS 2 – Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. As no such rights have been issued to employees this interpretation has no impact on the financial position or performance of the Group.



**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2007**

**1. Accounting policies (continued)**

**Standards and interpretations issued but not applied**

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements

<b>International Accounting Standards (IAS/IFRSs)</b>		<b>Effective date*</b>
IFRS 2	Amendments to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009

**International Financial Reporting Interpretations Committee (IFRIC)**

IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008

*IFRS 2 – Amendment to IFRS 2 – Vesting Conditions and Cancellations*

The amendment to IFRS 2 restricts the definition of vesting conditions to included only service conditions and performance conditions. All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. This amendment is mandatory for periods beginning on or after 1 January 2009 and the Group is currently assessing its impact on the financial statements, although it is not expected to be material.

*IFRS 3 – Business Combinations*

The revised IFRS 3 includes a requirement for acquisition-related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date. The standard also changes the treatment of non-controlling interests (i.e. minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses so arising recognised in the income statement. The Group does not anticipate early adopting the revised standard and so will apply it prospectively to all business combinations on or after 1 January 2010.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

*IFRS 8 – Operating Segments*

IFRS 8 requires disclosure based on information presented to the Board. This is not expected to change the business segment about which information is given. No single customer is expected to individually account for more than 10% of total revenue.

*IAS 1 – Presentation of Financial Statements*

This revised standard will have no impact on the measurement of the Group's performance but is likely to result in certain changes in the presentation of the Group's financial statements from January 2009 onwards. Had the standard been early adopted, the Group would have been required to include a Statement of Comprehensive Income.

*IAS 23 Borrowing Costs*

The revised standard requires entities to capitalise borrowing costs attributable to the development or construction of intangible assets, property, plant or equipment. There is not expected to be a material effect on the Group.

*IAS 27 Consolidated and Separate Financial Statements*

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interests in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill. Where there is a loss of control of a subsidiary, any retained interest will be remeasured to fair value, which will impact the gain or loss recognised on disposal. The revised standard is not expected to have a material effect on the financial position or performance of the Group.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statement in the period of initial application.

\* The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group has elected to prepare their financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to the standards and interpretations first being endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1 Accounting policies (continued)**

**Basis of consolidation**

The financial statements comprise the financial statements of Milton Homes Limited and its subsidiary undertakings

Subsidiaries are consolidated from the date control passes, and continue to be consolidated until the date such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-company balances and transactions are eliminated.

**Business combinations and goodwill**

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Negative goodwill is written back to the income statement.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised where the recoverable amount of a business acquired is less than the carrying value. The Group performs its annual impairment test of goodwill at 31 December.

When subsidiaries are sold, the difference between the selling price and the net assets plus the carrying value of goodwill is recognised in the income statement.

**Business combinations involving businesses under common control**

Business combinations involving entities under common control are accounted for using the pooling of interests method. This requires the financial statements of the combining entities to be consolidated from the beginning of the earliest period presented. The carrying values of the assets and liabilities of the separate entities are combined in the balance sheet and no fair value adjustments are made. Any difference between the amount recorded as share capital issued plus any additional consideration and the amount recorded for the share capital acquired is adjusted against equity, no goodwill is recognised.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2007**

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**1. Accounting policies (continued)**

**Investments in subsidiary undertakings**

Investments in subsidiaries are stated at cost less any provision for impairment in value

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

**Investment property**

Property that is held for capital appreciation and that is not occupied by the Group is classified as investment property. Leasehold property held for capital appreciation and that is not occupied by the Group is treated as a finance lease and included within investment property.

Investment property is measured initially at cost, including commissions paid to IFAs and directly attributable property acquisition transaction costs, and is thereafter reported at fair value, which reflects market conditions at the period end date. Fair value is based on active market prices, adjusted if necessary for any difference in nature, location or condition of the property. The fair value of the investment property is based on a valuation by Allsop LLP, an independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Gains or losses arising from a change in the fair values of the investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future benefits can be expected from its disposal. The gain or loss arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

**Financial assets – equity release plans**

Through the Property Plan agreement of the subsidiary company, Retirement Plus Property Plans Limited, the Group owns rights to increasing beneficial interests in residential properties in the United Kingdom. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with value changes recognised in the income statement. In accordance with paragraph 43 of IAS 39, directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through the income statement. The fair value is based on the estimated vacant possession value of each property and the Group's share of the beneficial interest in the property.

The fair value of financial assets is based on a valuation by Allsop LLP, an independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the asset being valued.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Financial assets at fair value through profit or loss**

Passive investments listed on a recognised investment exchange are designated as financial assets at fair value through profit or loss upon initial recognition. The fair value of the investments is determined by reference to quoted market prices at the close of business on the balance sheet date. Gains or losses arising from changes in the fair values of financial assets are recognised in the income statement in the period in which they arise.

**Property, plant and equipment**

Fixtures and equipment are stated at cost less accumulated depreciation and any impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Office and IT equipment - 33%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstance indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are renewed annually and where adjustments are required, these are made prospectively.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

**Leases**

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Properties leased out to tenants under operating leases are included in investment properties in the balance sheet and accounted for in accordance with the accounting policy on investment property.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

Software development - 20%

The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial period end. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The carrying value of intangible assets is reviewed for

**MILTON HOMES LIMITED**  
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**1 Accounting policies (continued)**

impairment whenever events or changes in circumstances indicate that the carrying value may not be recovered

**Derivative financial instruments**

The Group uses interest rate derivatives to mitigate the risk of adverse interest rate fluctuations. Such derivative instruments are initially recognised at fair value on the date on which a swap contract is entered into and subsequently remeasured at fair value. The fair value of interest rate contracts is determined by reference to the market for similar instruments.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Gains and losses arising from changes in the fair value of derivatives are recognised in the income statement in finance income and finance expense, respectively.

**Trade and other receivables**

Trade receivables are carried at the lower of their original invoiced value and recoverable amount.

**Loans and receivables**

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Impairment of loans and receivables**

The Group assesses at each balance sheet date whether loans and receivables are impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly-liquid investments that are readily convertible to known amounts of cash and are subjected to insignificant risk of changes in value

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

**Trade and other payables**

Trade and other payables are stated at cost

**Current tax**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax liabilities against current tax assets and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Interest bearing loans and borrowings**

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

A capital reserve is established for the estimated value of the related interest forgone on non-interest bearing loans.

Gains and losses on the repurchase, settlement or cancellation of liabilities are recognised in finance income and finance expense, respectively.

**Pension costs**

Pension costs in respect of contributions to the Self-Invested Personal Pension plan arrangements of certain employees are charged to the income statement as incurred.

**Deferred purchase consideration on acquisition of reversionary interests in investment property**

The Group has entered into loan agreements with tenants which are repaid by way of monthly instalments over the term of the agreement. The loans are recognised when the Group becomes party to the related contract and are measured initially at fair value less directly attributable transaction costs. After initial recognition, deferred purchase consideration is measured at amortised cost using the effective interest method.

The loans are repaid in the event of death, vacation from the property or at the Group's request, generally in response to receipt of a request for repayment from the tenant.

**Derecognition of financial liabilities**

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or otherwise expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred, is recognised in the income statement.

**Revenue recognition**

Profits on the sale of reverted properties are recognised on completion of the sale and are included in income. Profits on disposal are calculated as net sales proceeds less the carrying value of the Group's beneficial interest in the properties determined with reference to the most recent valuation.



**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2007**

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**1. Accounting policies (continued)**

The gain or loss on the revaluation of investment properties and equity release plan financial assets, following the independent valuation of the Group's reversionary interests, is recognised in the income statement in the period in which it arises

Equity Transfer Rate ("ETR") income represents the recognition in the income statement of the increase in the Group's beneficial interest in the properties underlying the equity release plan financial asset portfolio in accordance with the contractual terms of the Retirement Plus Property Plan. ETR income is recognised on a monthly basis over the term of the plan until the Group's beneficial interest reaches the maximum set out in each individual Property Plan. This increase in value is recognised as part of other income in the income statement.

Rental income from reverted investment property is recognised in the income statement on a straight-line basis over the unexpired lease term.

Sundry income includes consultancy fees levied on an ad hoc basis for services provided and fees charged to homeowners. Asset management and consultancy fee income is recognised when the services are performed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**2. Critical accounting judgements and key sources of estimation and uncertainty**

In the process of applying the Group's accounting policies as described above, management have made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements:

*Fair value of investment properties*

The Group's investment properties are independently valued. The valuation of these assets is arrived at by taking the equity owned vacant market value and applying a discount percentage. The discount percentage is based upon a number of factors over which judgements have had to be made. These judgements include estimated expected life expectancy (based upon the Government Actuary's Department Interim Life Tables for the years 2003-05) and marketability rating.

Investment properties also include those properties which have become vacant and are in the process of being sold.

*Fair value of financial assets – equity release plans*

The Group uses in-house valuations supported by structured sample valuations carried out by the external independent valuer Allsop LLP. Although valuations are usually based on good and up-to-date information, an element of uncertainty is involved in the application of actuarial assumptions, mortality rates and in the valuation of the underlying property.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2 Critical accounting judgements and key sources of estimation and uncertainty (continued)**

*Fair value of parent company interest-free loans*

The Group has estimated the fair value of interest-free loans from the parent company by calculating the present value of each loan with an interest rate comparable to that in the market for a similar loan. A capital reserve is established for the related interest forgone by the parent company.

*Fair value of loans*

The Group has estimated the fair value of loans by calculating the present value of each loan with an interest rate comparable to that in the market for a similar loan.

*Deferred tax asset*

Significant management judgement is required to determine the amount of deferred tax assets arising from unused tax losses that can be recognised. Management reassesses unrecognised deferred tax assets at each balance sheet date. Based upon the likely timing and level of future taxable profits, management has concluded that no deferred tax asset should be recognised at 31 December 2007 (31 March 2007: £nil). The amount of unrecognised deferred tax losses at 31 December 2007 was £1,742,000 (31 March 2007: £4,107,000). Management will closely monitor the opportunities for the recoverability of these tax losses, reassessing the opportunity to recognise deferred tax assets at subsequent balance sheet dates.

**3 Segmental analysis**

No geographical or business segmental analysis has been prepared by the Directors as they consider that only the one segment exists. All the Group's activities are performed within the United Kingdom and in the home reversion sector of the equity release market.

**MILTON HOMES LIMITED**  
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**4. Income**

	31 December 2007 £'000	31 March 2007 £'000
Gain on revaluation of equity release plans	246	-
Equity Transfer Rate income	82	-
Rental income	69	168
Loss on revaluation of financial assets at fair value through the profit or loss	(31)	-
Sundry income	28	-
	<u>394</u>	<u>168</u>

**5. Operating profit**

The operating profit is stated after charging

	31 December 2007 £'000	31 March 2007 £'000
Depreciation of property, plant and equipment	9	-
Amortisation of intangible assets	5	-
Impairment of goodwill	1,411	-
Re-documentation costs	462	-
Impairment of loans	58	440
Asset management agreement termination costs	-	455
Auditors' remuneration - audit fees	82	-
	<u>82</u>	<u>-</u>

In accordance with the Directors' determination that the purchased goodwill, the excess of consideration paid over the fair value of assets acquired, arising on the acquisition of Retirement Plus Limited best represented the cost of acquiring a portfolio of financial assets comprised of equity release plans, the goodwill was fully impaired on acquisition

Legal and professional fees were incurred re-documenting asset management and distribution agreements prior to FSA authorisation of the home reversion market

The Group previously outsourced the administration of the Living Plus reversionary interests in investment properties to Reversionary Residential Limited, under the terms of an asset management agreement. The Group terminated this arrangement with effect from April 2007

Audit fees prior to April 2007 were borne by DV3 Limited, the ultimate parent company. Details of this expenditure are included in Note 28 Related party transactions

**MILTON HOMES LIMITED**  
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**6. Information regarding directors and employees**

	<b>31 December 2007 £'000</b>	<b>31 March 2007 £'000</b>
Employment costs, including Directors' emoluments, are as follows		
Wages and salaries	557	-
Social security costs	30	-
Other pension costs	14	-
	<u>601</u>	<u>-</u>

Details regarding the emoluments of the Directors and Non-executive Directors are contained in the Remuneration Committee Report on page 31 only

	<b>31 December 2007 number</b>	<b>31 March 2007 number</b>
The average number of persons, including executive Directors, employed by the Group is analysed below		
Sales	1	-
Administration	2	-
	<u>3</u>	<u>-</u>

The number of employees at year end was 18

**7. Finance income**

	<b>31 December 2007 £'000</b>	<b>31 March 2007 £'000</b>
Bank interest	76	235
Gain on interest rate derivatives	218	1,886
Interest receivable on loans	58	56
	<u>352</u>	<u>2,177</u>

**MILTON HOMES LIMITED**  
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**8. Finance expense**

	31 December 2007 £'000	31 March 2007 £'000
Interest and other charges payable on bank loans and overdrafts	3,920	4,261
Interest payable on other loans	3,674	1,087
Unrealised loss on interest rate derivatives	70	-
Realised loss on loans	-	93
	<u>7,664</u>	<u>5,441</u>

Interest and other charges payable on bank loans and overdrafts for the period ended 31 December 2007 includes £577,000 in respect of the write-off (over and above the £90,000 annual amortisation charge) of loan set up costs, following refinancing in July 2007 (31 March 2007 £nil)

Other loans include ultimate parent company borrowings and deferred purchase consideration Included within the charge for the period ended 31 December 2007 is £3,605,000 (31 March 2007 £1,029,000) of notional interest expense on the 6-year interest-free loan from the parent company The charge for the period ended 31 December 2007 reflects the acceleration of interest notionally payable through to the original repayment date following the early repayment in November 2007 of the 6-year loan

**9 Taxation**

**Group**

	31 December 2007 £'000	31 March 2007 £'000
<u>Analysis of tax credit for the period</u>		
Deferred tax credit	258	-
Tax credit for the period	<u>258</u>	<u>-</u>

The effective rate of corporation tax for the period varies from standard rate in the United Kingdom (30%) as applied to the Group's pre-tax loss for the reasons analysed below

**MILTON HOMES LIMITED**  
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**9 Taxation (continued)**

	31 December 2007 £'000	31 March 2007 £'000
<u>Reconciliation of total tax credit</u>		
Loss/(Profit) on ordinary activities before tax	7,729	(4,969)
Loss/(Profit) for the year multiplied by the standard rate of corporation tax in the United Kingdom ((30%) (31 March 2007 22%))	2,319	(1,093)
<u>Factors affecting the tax credit for the period.</u>		
Expenses not deductible for tax purposes	(830)	479
Taxation losses on which no deferred tax benefit recognised	(1,281)	-
Chargeable assets not taxable	50	263
Unrealised revaluation of investment property	-	1,954
Tax losses carried forward	-	(1,603)
	258	-

The applicable rate for the year ended 31 March 2007 was 22% as the Group's activities were offshore

The Group has an unrecognised deferred tax asset of £1,742,000 (31 March 2007 £4,107,000) in respect of tax losses

**Company**

The Company has an unrecognised deferred tax asset of £19,000 in respect of tax losses

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**10. Investment properties**

	31 December 2007 £'000	31 March 2007 £'000
Valuation at beginning of period	76,216	67,852
Additions	2,212	6,422
Disposals	(3,985)	(6,675)
Revaluations	2,188	8,617
Valuation at end of period	<u>76,631</u>	<u>76,216</u>

Investment property is acquired through equity release home reversion plans whereby the seller is granted a lifetime lease of the investment property. The plan ends upon the death of the tenant or a permanent move into long-term residential care.

The fair value of the Group's investment property at each period end is valued on an open market value (subject to lifetime occupancy rights) by qualified valuers Allsop LLP, an independent firm of chartered surveyors, in accordance with guidance issued by the Royal Institution of Chartered Surveyors, as set out below.

One third of the independently valued properties are inspected externally. For each sample dwelling Allsop has arrived at a market value on the assumption of vacant possession using a conventional approach of comparable analysis. Where properties are not inspected, Allsop has applied a composite average of relevant house prices indices to the value when previously inspected by them.

The equity owned vacant market value has a discount percentage applied to arrive at the reversionary interest subject to the existing life tenancy. The discount percentage is based upon a number of factors including expected life expectancy (based upon the Government Actuary's Department Interim Life Tables for the years 2003-05), marketability rating and whether there is a single or joint tenancy.

There are no restrictions on the realisation of investment properties. There are currently no obligations to purchase, construct, or develop the investment property.

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**11. Financial assets – equity release plans**

	<b>31 December 2007 £'000</b>
On acquisition of subsidiary undertaking	<b>16,300</b>
Additions	<b>1,442</b>
Equity transfer	<b>82</b>
Revaluations	<b>246</b>
	<hr/>
Valuation at end of period	<b>18,070</b>
	<hr/>

The fair value of the Group's Property Plan assets at each period end are valued on an open market basis (subject to lifetime occupancy rights) by qualified valuers Allsop LLP, an independent firm of chartered surveyors, in accordance with guidance issued by the Royal Institution of Chartered Surveyors, as set out below

One third of the independently valued properties are inspected externally. For each sample dwelling Allsop has arrived at a market value on the assumption of vacant possession using a conventional approach of comparable analysis. Where properties are not inspected, Allsop has applied a composite average of relevant house prices indices to the value when previously inspected by them.

The equity owned vacant market value has a discount percentage applied to arrive at the reversionary interest subject to the existing property plans. The discount percentage is based upon a number of factors including estimated expected life expectancy (based upon the Government Actuary's Department Interim Life Tables for the years 2003-05), marketability rating and whether there is a single or joint tenancy.

**12. Investment in subsidiary undertakings**

	<b>31 December 2007 £'000</b>
At incorporation	-
Additions	<b>18,335</b>
Disposals	<b>(4,837)</b>
	<hr/>
	<b>13,498</b>
	<hr/>

In the opinion of the Directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.



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**12 Investment in subsidiary undertakings (continued)**

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows

	Country of <u>incorporation</u>	% equity <u>interest</u>	Class of <u>shares</u>
<u>Home reversion plan provider</u>			
Living Plus Limited	United Kingdom	100	Ordinary
Living Plus Assets Limited	United Kingdom	100	Ordinary
Retirement Plus Property Plans Limited	United Kingdom	100	Ordinary
<u>Home reversion plan arranger and administrator</u>			
Retirement Plus Limited	United Kingdom	100	Ordinary
<u>Non-trading Jersey trusts*</u>			
Radcliffe Unit Trust (L)	Jersey	100	Units
Radcliffe Unit Trust (R)	Jersey	100	Units
Equity Reversions Unit Trust 2	Jersey	100	Units
Milton Homes Trust	Jersey	100	Units

\* The Jersey trusts are owned by the subsidiary undertaking Living Plus Assets Limited

*Group reorganisations*

The Company acquired at net asset value the entire issued ordinary share capital of Living Plus Limited for £1,000,000 on 15 January 2007. On 13 November 2007 the balance outstanding of £552,000 on the intercompany account and owed to the Company was capitalised and further ordinary shares of £1 each issued in settlement of the loan, bringing the cumulative investment in Living Plus Limited to £1,552,000.

As part of a group reorganisation, the Company acquired DV3 RAM Limited, a company incorporated in British Virgin Islands, on 9 July 2007 for its net asset value of £4,837,000. On 13 November 2007 the assets and liabilities of DV3 RAM Limited were transferred to a fellow subsidiary company, Living Plus Assets Limited, for the net asset value of £5,776,000, and the company was put into members' voluntary liquidation resulting in a loss on disposal of £4,837,000.

As a group reorganisation under common control, the 9 July reorganisation has been accounted for using the pooling of interests method.

On 1 November 2007 the Company acquired the entire issued ordinary share capital of Living Plus Assets Limited for £2. A further £5,776,000 shares were issued to the Company on 13 November 2007 as settlement of an intercompany account assigned to Living Plus Assets Limited in a group reorganisation.

*Acquisitions*

On 21 November 2007 the Company acquired all the issued ordinary shares of £1 each of Retirement Plus Limited at their fair value of £6,070,000 in consideration for the allotment and issue of 5,938,000 ordinary shares of £1 each of the Company (see note 26). Directly attributable acquisition costs amounted to £99,000. This has been accounted for using the purchase method.

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**13. Property, plant and equipment**

	<b>Office and IT equipment £'000</b>
<u>Cost</u>	
On acquisition of subsidiary undertaking	129
Additions	49
	<hr/>
At 31 December 2007	178
	<hr/>
<u>Accumulated depreciation</u>	
On acquisition of subsidiary undertaking	74
Charge for the period	9
	<hr/>
At 31 December 2007	83
	<hr/>
<u>Carrying amount</u>	
<b>At 31 December 2007</b>	<b>95</b>
	<hr/>
At 31 March 2007	-
	<hr/>

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**14 Intangible assets**

	Software development £'000	Goodwill £'000	Total £'000
<u>Cost</u>			
On acquisition of subsidiary undertaking	164	-	164
Additions	12	1,411	1,423
Impairment of goodwill	-	(1,411)	(1,411)
	<u>176</u>	<u>-</u>	<u>176</u>
At 31 December 2007	<u>176</u>	<u>-</u>	<u>176</u>
<u>Accumulated amortisation</u>			
On acquisition of subsidiary undertaking	54	-	54
Charge for the period	5	-	5
	<u>59</u>	<u>-</u>	<u>59</u>
At 31 December 2007	<u>59</u>	<u>-</u>	<u>59</u>
<u>Carrying amount</u>			
At 31 December 2007	<u>117</u>	<u>-</u>	<u>117</u>
At 31 March 2007	<u>-</u>	<u>-</u>	<u>-</u>

The £1,411,000 addition to goodwill arose on the acquisition of Retirement Plus Limited and its subsidiary undertaking, Retirement Plus Property Plans Limited, as detailed in note 26

In accordance with the Directors' determination that the purchased goodwill, the excess of consideration paid over the fair value of assets acquired, best represented the cost of acquiring a portfolio of financial assets comprised of equity release plans, it was fully impaired on acquisition and is included within administrative expenses in the income statement

The Directors do not believe that the application of a discounted cash flow model, employing best estimates of forecast future revenues and operating expenses to determine value in use against which the fair value less costs to sell of the acquired business can be contrasted is, therefore, warranted

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**15. Derivative financial instruments**

	31 December 2007 £'000	31 March 2007 £'000
<u>Financial assets</u>		
Interest rate CAPS/SWAPS	49	180
	<u>49</u>	<u>180</u>
	31 December 2007 £'000	31 March 2007 £'000
<u>Financial liabilities</u>		
Interest rate SWAPS	243	300
	<u>243</u>	<u>300</u>

**16. Financial assets at fair value through profit or loss**

<i>Group and Company</i>	31 December 2007 £'000
At 1 April 2007	-
Additions	561
Revaluation	(31)
	<u>530</u>
At 31 December 2007	<u>530</u>

At the balance sheet date the Company owned 250,000 issued ordinary shares of £1 each of Sovereign Reversions plc. The shares were designated upon initial recognition as financial assets at fair value through profit or loss.

On 17 January 2008, the Company acquired a further 310,000 issued ordinary shares, taking its equity interest to marginally above 4%.

**17. Trade and other receivables**

	Group		Company
	31 December 2007 £'000	31 March 2007 £'000	31 December 2007 £'000
Trade receivables	951	119	837
Amounts due from group companies	257	-	565
Prepayments and accrued income	1,653	-	1,553
	<u>2,861</u>	<u>119</u>	<u>2,955</u>

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**18. Loans**

**Group**

	31 December 2007 £'000	31 March 2007 £'000
<u>Current</u> Loans	<u>762</u>	<u>762</u>

These loans are unsecured, held at amortised cost less any allowance for impairment and are non-interest bearing. The initial fair value of the loans is calculated as the present value using an interest rate comparable to that in the market for a similar loan. The loans became due and payable in May 2007.

The loans are reviewed at each period end and impaired to their recoverable amount. At the 31 December 2007 loans at a nominal value of £498,000 (March 2007 £440,000) were impaired and fully provided for. The loans were impaired after assessing that the financial condition of the borrower will affect its ability to pay its debts as they fall due.

The movement in the provision for the impairment of loans was as follows:

	31 December 2007 £'000
At 1 April 2007	440
Charge for the period	58
<b>At 31 December 2007</b>	<b><u>498</u></b>

**Company**

	31 December 2007 £'000
<u>Non-current</u> Loans to subsidiary undertakings	<u>18,352</u>

As part of a group restructuring, on 13 November 2007 loans to the value of £17,202,000 were assigned to the Company.

The Company has made further loans of £1,150,000 available to FSA regulated subsidiary undertakings to bolster their FSA eligible capital. The loans can only be repaid with the prior approval of FSA, are unsecured and held at amortised cost less any allowance for impairment. Interest is levied at LIBOR plus an additional annual margin.

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**19 Trade and other payables**

	<b>Group</b>		<b>Company</b>
	<b>31 December</b>	<b>31 March</b>	<b>31 December</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade payables	1,740	307	1,102
Other tax and social security	45	-	-
Amounts due to group companies	-	-	1,475
Accruals and deferred income	3,544	1,416	1,295
	<u>5,329</u>	<u>1,723</u>	<u>3,872</u>

**20 Interest bearing loans and borrowings**

	<b>Group</b>		<b>Company</b>
	<b>31 December</b>	<b>31 March</b>	<b>31 December</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Current</u>			
Bank overdraft	76	-	-
Bank loans	25,899	13,931	-
Bond issued to parent company	565	-	565
Ultimate parent company borrowings	-	13,837	-
Deferred purchase consideration	118	95	-
	<u>26,658</u>	<u>27,863</u>	<u>565</u>
<u>Non-current</u>			
Wholly repayable within 10 years			
Bank loans	42,443	44,068	-
Deferred purchase consideration	864	938	-
	<u>43,307</u>	<u>45,006</u>	<u>-</u>

Except where purchased with cash or with deferred purchase consideration, investment property is pledged as collateral to secure the Royal Bank of Scotland plc loans. As at 31 December 2007 the fair value of investment property not pledged as collateral was £5,573,000 (31 March 2007 £3,862,000)

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**20. Interest bearing loans and borrowings (continued)**

*Royal Bank of Scotland plc ("RBS") loans*

RBS provides three borrowing facilities to the Group, namely a £54 million term credit facility ("Facility A"), a £6 million annual liquidity facility ("Facility B") and a £25 million annual revolving credit facility ("ERUT facility"). Facility A, with available funds of £54,000,000, has a 10-year term, repayable in 2014. Annual repayments are made pursuant to management's annual cash flow forecast. Facility B is a liquidity facility with £6,000,000 available to meet interest and expenses arising in respect of Facility A. Both Facility B and the ERUT facility have a 364-day term, capable of being renewed annually. The Group borrows in Sterling at floating rates of interest.

*Barclays Bank term credit facility*

A £20 million committed term credit facility has been provided to the Group by Barclays Bank PLC, repayable on 30 September 2008. This loan was repaid in full on 3 July 2008.

The Group is currently in advanced discussions with a bank regarding alternative funding to replace this facility. Until such time as a replacement facility is put in place, the ultimate parent company, DV3 Limited, and the other significant shareholder, DV4 Limited, have confirmed in a letter of support that they will continue to provide interim financial support to enable the Group to meet its liabilities, as and when they fall due.

The facility bore interest at rates based on Mandatory Cost, LIBOR plus an additional annual margin. The facility was secured on the Group's rights to beneficial interests in residential properties through the Retirement Plus Property Plan.

*Undrawn committed borrowings*

As at 31 December 2007, the Group had available £41,659,000 (March 2007 £26,362,000) of undrawn committed borrowing facilities, of which £29,234,000 was made available by RBS in support of the Group's Living Plus operations.

*Bond issued to parent company*

The Company has issued a deep discount bond to the parent company DV4 Limited with an aggregate nominal value of £649,000. The bond is unsecured, subject to a 14.98% discount and redeemable on 28 November 2008.

*Ultimate parent company borrowings*

The Group entered into loan arrangements with DV3 Limited, the ultimate parent company. These non-interest bearing loans are held at fair value which is, calculated as the present value based on LIBOR plus an additional annual margin, an interest rate comparable to that in the market for a similar loan. On 13 November 2007 amounts outstanding under the loan arrangements were capitalised and shares issued in settlement.

*Deferred purchase consideration*

Deferred purchase consideration represents annuities payable to tenants where consideration for a property has taken the form, in some part, of a commitment by the Group to pay monthly cash instalments over a set period. The last of these instalments is payable in 2025. The effective interest rate is 5.95%.

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**21. Financial instruments**

The Group's principal financial instruments comprise cash, financial assets – equity release assets, bank loans, interest rate derivatives, parent company borrowings and deferred purchase consideration. Cash and cash equivalents are considered to be cash at bank and cash in hand. The main purpose of these financial instruments is to finance the acquisition of investment property and plan assets, and to meet operating, administrative and finance costs. The Group has various other financial instruments, such as trade payables, that arise directly from its operations. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and market risk. There is no currency risk as all financial instruments are held in Sterling. The Financial and Risk Review on page 12 includes an explanation of the Group's objectives and policies with regard to financial instruments and the management of risk.

**Group**

*Interest rate risk profile of financial assets and liabilities*

Period ended 31 December 2007

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u>Floating rate</u>				
Cash	4,392	-	-	4,392
Loans	762	-	-	762
Overdraft	(76)	-	-	(76)
Bank loans	(25,899)	(12,052)	(30,391)	(68,342)
Bond issued to parent company	(565)	-	-	(565)
Interest rate SWAPS*	6,873	-	-	6,873
<u>Fixed rate</u>				
Financial assets – equity release assets	-	-	18,070	18,070
Deferred purchase consideration	(118)	(349)	(515)	(982)
Interest rate SWAPS*	-	-	(6,873)	(6,873)



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**21 Financial instruments (continued)**

***Group (continued)***

*Year ended 31 March 2007*

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u><b>Floating rate</b></u>				
Cash	6,786	-	-	6,786
Loans	762	-	-	762
Bank loans	(13,931)	(10,188)	(33,880)	(57,999)
Parent company borrowings	(13,837)	-	-	(13,837)
Interest rate SWAPS*	47,916	-	-	47,916
<u><b>Fixed rate</b></u>				
Deferred purchase consideration	(95)	(375)	(563)	(1,033)
Interest rate SWAPS*	(24,600)	-	(23,316)	(47,916)

\* Notional principal amounts Interest on financial instruments classified as floating rate is repriced at intervals of less than one year Interest on interest rate hedges classified as fixed rate is fixed until the maturity of the instrument

***Company***

*Interest rate risk profile of financial assets and liabilities*

*Period ended 31 December 2007*

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u><b>Floating rate</b></u>				
Cash	47	-	-	47
Loans to subsidiary undertakings	18,352	-	-	18,352
Bond issued to parent company	(565)	-	-	(565)

*Fair values of financial assets and financial liabilities*

The Directors consider that there are no material differences between the carrying values and the fair values of the Group's financial assets and liabilities at each period end

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**21 Financial instruments (continued)**

*Market risk*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss)/profit before tax (through the impact on floating rate borrowings) There is no impact on the Group's equity

	Increase/ decrease in basis points	Effect on (loss)/profit before tax £'000
<u>Nine months ended 31 December 2007</u>		
Sterling	+25	(112)
Sterling	-25	112
<u>Year ended 31 March 2007</u>		
Sterling	+25	(145)
Sterling	-25	145

**22. Share capital**

<i>Group and Company</i>	31 December 2007 £'000	31 March 2007 £'000
<u>Authorised</u>		
100,000,000 (31 March 2007 10,000,000) ordinary shares of £1 each	<u>100,000</u>	<u>10,000</u>

On 9 July 2007 and 13 November 2007 the authorised share capital was increased by £22,692,000 and £67,308,000, respectively, by the creation of 22,692,000 and 67,308,000 Ordinary Shares of £1 each

	Number 000's	£'000
<u>Allotted, called up &amp; fully paid</u>		
At incorporation	-	-
At 31 March 2007	-	-
Shares issued during the period	29,955	29,955
<b>At 31 December 2007</b>	<u><b>29,955</b></u>	<u><b>29,955</b></u>

The Company issued 22,692,000 Ordinary Shares at £1 each on 13 November 2007 to DV3 Limited in settlement of amounts outstanding on the intercompany account On 21 November 2007, DV3 Limited subscribed for an additional 1,325,000 Ordinary Shares of £1 each to provide additional working capital and the Company acquired the entire issued Ordinary Share capital of Retirement Plus Limited in consideration for the allotment and issue of 5,938,000 Ordinary Shares of £1 each of the Company

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**23. Reserves**

<i>Group</i>	Share premium reserve £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000
As at 1 April 2007	-	4,429	-	4,742
Loss for the year	-	-	-	(7,471)
Dividends	-	-	-	(1)
Premium on shares issued	133	-	-	-
Capital contribution	-	1,020	-	-
Non-distributable reserve	-	-	(4,837)	-
<b>As at 31 December 2007</b>	<b>133</b>	<b>5,449</b>	<b>(4,837)</b>	<b>(2,730)</b>

<i>Company</i>	Share premium reserve £'000	Capital reserve £'000	Retained earnings £'000
Upon incorporation	-	-	-
Profit for the year	-	-	61
Premium on shares issued	133	-	-
Capital contribution	-	796	-
<b>As at 31 December 2007</b>	<b>133</b>	<b>796</b>	<b>61</b>

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes

Reserves are defined as follows

Share premium reserve represents amounts subscribed for issued share capital in excess of nominal value

The capital reserve comprises interest forgone on non-interest bearing loans made available by the ultimate parent company

Other reserves is a non-distributable reserve created when Milton Homes Limited acquired DV3 RAM Limited on 9 July 2007 as part of a group reorganisation

Retained earnings are the cumulative net gains and losses recognised in the consolidated income statement. On 9 July 2007, pursuant to a group reorganisation, Milton Homes Trust, Radcliffe Unit Trust (L) and Radcliffe Unit Trust (R) collectively made cash distributions totalling £1,000 to the minority shareholder

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**24. Analysis of cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following

	<b>Group</b>		<b>Company</b>
	<b>31 December</b>	<b>31 March</b>	<b>31 December</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and on hand	4,392	6,786	47
Bank overdraft	(76)	-	-
	<u>4,316</u>	<u>6,786</u>	<u>47</u>

**25. Cash inflow in respect of acquisition**

	<b>£'000</b>
Cost of acquisition	6,169
Less fair value of shares issued as consideration	(6,070)
	<u>99</u>
Cash held by acquired business	(151)
<b>Net cash inflow</b>	<u><b>52</b></u>

**26. Acquisitions**

On 21 November 2007 the Company acquired 100% of the issued Ordinary Shares of £1 each, together with 100% of the voting rights, of Retirement Plus Limited, an FSA authorised home reversion plan arranger and administrator, and its subsidiary company, Retirement Plus Property Plans Limited (together "Retirement Plus"), an FSA authorised home reversion plan provider

Prior to the acquisition, Retirement Plus Limited was a wholly owned subsidiary of Retirement Plus Estates Limited, which in turn was indirectly owned 42 25% by DV3 Limited and 42 25% by The British Land Company PLC with the residual balance directly owned by founders and management

The Company issued 5,938,000 ordinary shares of £1 each to Retirement Plus Estates Limited as consideration in a share-for-share exchange. In the absence of a published price for the Company's shares, the fair value of the shares issued was determined with reference to the fair value of the Company's underlying assets and liabilities

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**26 Acquisitions (continued)**

The book values and fair values of the acquired assets and liabilities are as follows

	<b>Book value &amp; fair value £'000</b>
<b>Assets</b>	
<u>Non-current assets</u>	
Financial assets – equity release plans	16,300
Property, plant and equipment	55
Intangible assets	110
	<hr/> 16,465
<u>Current assets</u>	
Trade and other receivables	226
Cash and cash equivalents	151
	<hr/> 377
<b>Total assets</b>	<hr/> <b>16,842</b> <hr/>
<b>Liabilities</b>	
<u>Current liabilities</u>	
Trade and other payables	758
Interest bearing loans and borrowings	11,202
	<hr/> 11,960
<u>Non-current liabilities</u>	
Derivative financial instruments	124
	<hr/> 124
<b>Total liabilities</b>	<hr/> <b>12,084</b> <hr/>
<b>Total net assets</b>	<hr/> <b>4,758</b> <hr/>
<b>Goodwill</b>	<hr/> <b>1,411</b> <hr/>
	<hr/> <b>6,169</b> <hr/>

Goodwill of £1,411,000 arising from the acquisition of the Retirement Plus business was recognised in the balance sheet. In accordance with the Directors' determination that the goodwill effectively represented the cost of acquiring a portfolio of financial assets comprised of equity release plans, it was fully impaired on acquisition through the income statement.

The loss after tax of the acquired business for the period following acquisition to the 31 December 2007 was £400,000.

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**26. Acquisitions (continued)**

Had the Retirement Plus business been acquired at the beginning of the financial period the effect on the income and loss after tax of the Group would have been as follows

	Group results as reported £'000	Retirement Plus 1 April 2007 to 20 November 2007 £'000	Proforma Group results £'000
<b>Income</b>	3,475	969	4,444
<b>Loss after tax</b>	(7,471)	(1,229)	(8,700)

**27 Operating leases**

Future minimum amounts payable under non-cancellable operating leases are as follows

	<b>Group</b>		<b>Company</b>
<b>Premises</b>	<b>31 December 2007 £'000</b>	<b>31 March 2007 £'000</b>	<b>31 December 2007 £'000</b>
Year in which payment will occur			
- Within 1 year	116	116	-
- After 1 year but within 5 years	26	112	-

**28. Related party transactions**

During the period, DV3 Limited, the ultimate parent company, made available loans of £6,269,000 (31 March 2007 £3,885,000) to the Group for general corporate purposes and for the acquisition of reversionary interests in investment property

The loans were unsecured, interest-free and no guarantees were provided. On 13 November 2007, the balance outstanding of £22,692,000 was capitalised and Ordinary Shares of £1 each issued to DV3 Limited in settlement.

In order to fund the acquisition of investments in listed companies, on 24 December 2007, the Company issued a deep discount bond to the parent company DV4 Limited with an aggregate nominal value of £649,000. The bond is unsecured, subject to a 14.98% discount and redeemable on 28 November.

During the period ended 31 December 2007 the Group provided consultancy services to DV4 Limited. The total amount receivable at 31 December 2007 was £17,000 (31 March 2007 £nil).

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**28. Related party transactions (continued)**

At 31 December 2007 Retirement Plus Estates Limited, an immediate parent company, owed the Group £257,000 (31 March 2007 £nil) in respect of trading losses surrendered. The company was placed into liquidation in April 2008 and the current account was settled prior to that event.

The transactions with Directors of the Group are disclosed in the Remuneration Committee Report. Transactions with key management personnel (comprising the Executive Directors) are disclosed below.

	<b>31 December 2007 £'000</b>	<b>31 March 2007 £'000</b>
Short-term employee benefits	<u>95</u>	<u>-</u>

During the periods under review DV3 Limited has paid the following fees on behalf of the Group:

	<b>31 December 2007 £'000</b>	<b>31 March 2007 £'000</b>
Aborted listing fees	207	-
Auditors' remuneration		
- Audit fee	-	35
Professional fees incurred in respect of group reorganisations	<u>631</u>	<u>-</u>

In addition to the amounts paid in the period ended 31 December 2007, DV3 Limited has undertaken to pay further unbilled aborted listing fees and group reorganisation fees of £1,368,000 and £28,000, respectively.

**29. Post balance sheet events**

On 17 January 2008, consistent with its policy of investing directly or indirectly in the reversionary residential property market, the Company acquired a further 310,000 issued ordinary shares of £1 each of Sovereign Reversions plc, taking its equity interest to marginally above 4%.

On 3 July 2008 the subsidiary company, Retirement Plus Property Plans Limited, repaid in full amounts drawn down under the term credit facility granted by Barclays Bank PLC.