Sovereign Equity Release Limited

Report and Fınancıal Statements

Year Ended

30 Aprıl 2010

Company number 6178651

Sovereign Equity Release Limited

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

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Directors

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

Secretary and registered office

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

Company number

6178651 (England & Wales)

Auditors

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

Sovereign Equity Release Limited

Report of the directors for the year ended 30 April 2010

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

Principal activities and results

The company's main activity is as a holder of investments in home reversions It has also acquired a small number of new investments during the year Investments will be realised over a number of years as and when properties become available for sale

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

Post Balance Sheet Events

Change of Ownership

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

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

Following the change of ownership, representative directors from GERL and Moorfield have been appointed to the board of Sovereign Equity Release Limited

Financing

In July 2010, Sovereign Reversions Limited agreed refinancing terms for the Sovereign Group with Allied Irish Banks plc (AIB) for a £15m loan for a two year term Proceeds on the sale of assets secured to AIB were to be split whereby 60% of the proceeds of individual sales will be applied as loan repayments The loan was to be reduced by a minimum of £1 0m in year one and £1 25m in year two

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

Change of Accounting Reference Date

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

Going Concern

The dırectors have revıewed the cash flow projectıons for the company and the group and have consıdered the financıal resources avaılable ıncludıng bank finance Due to the uncertaınty noted above ın relatıon to the tımıng of the refinancıng the joınt venture partners have agreed to provıde financıal support as necessary for a perıod of no less than one year from the approval of the financıal statements and accordıngly the dırectors have an expectatıon that the company and the group have adequate resources to contınue operatıons for the foreseeable future For thıs reason, they contınue to adopt the goıng concern basıs ın preparıng the financıal statements

Dividends

The dırectors do not recommend payment of an ordınary dıvıdend (2009 - £Nıl)

Directors

The followıng dırectors have held office sınce 1 May 2009 -

G C W Marshall
R A Pearce Gould
N T Hare-Scott (resıgned 18 November 2010
S Lıttle
S A Burgess
P Barber (appoınted 18 November 2010)
P Couch (appoınted 18 November 2010)
G Sıdwell (appoınted 25 November 2010)

Charitable and political contributions

No charıtable or polıtıcal contrıbutıons were made durıng the year

Directors' responsibilities

The dırectors are responsıble for preparıng the financıal statements ın accordance wıth the Companıes Act 2006 and for beıng satısfied that the financıal statements gıve a true and faır vıew The dırectors are also responsıble for preparıng the financıal statements ın accordance wıth Unıted Kıngdom Accountıng Standards (Unıted Kıngdom Generally Accepted Accountıng Practıce)

Company law requıres the dırectors to prepare financıal statements for each financıal year whıch gıve a true and faır vıew of the state of affaırs of the company and of the profit or loss of the company for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgments and estımates that are reasonable and prudent,
- state whether applıcable accountıng standards have been followed, subject to any materıal departures dısclosed and explaıned ın the financıal statements,
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the company wıll contınue ın busıness

Sovereign Equity Release Limited

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

Directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 2006

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

Auditors

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

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

On behalf of the Board

S Burgess
Director

Date 21 January 2011

Sovereign Equity Release Limited

Report of the independent auditors

Independent auditor's report to the members of Sovereign Equity Release Limited

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

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

BDO LLP

Richard Kelly
- Senior Statutory Auditor
For and on behalf of BDO LLP
Hatfield, Herts
United Kingdom
Date 21 January 2011

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

Sovereign Equity Release Limited

Results for the year ended 30 April 2010

Profit and loss account

	Note	2010 £'000	2009 £'000
Administrative expenses		(54)	(48)
Operating loss	3	(54)	(48)
Profit on sale of investment properties		288	-
Profit/(loss) on ordinary activities before taxation		234	(48)
Taxation	4	14	-
Profit/(loss) on ordinary activities after taxation		248	(48)

Note of historical costs profit and losses

	Note	2010 £'000	2009 £'000
Profit /(loss) on ordinary activities before taxation		234	(48)
Realisation of property revaluation gains of previous periods		50	-
Historical cost profit/(loss) for the year before taxation		284	(48)
Taxation	4	-	-
Historical cost profit for the year after taxation		284	(48)

Statement of total recognised gains and losses

	Note	2010 £'000	2009 £'000
Profit/(loss) on ordinary activities after taxation		248	(48)
Taxation on valuation surplus realised on sale of properties	4	(14)	-
Unrealised uplift/(deficit) on revaluation of investment properties		855	(1,452)
Total recognised profits/(losses) relating to the year		1,089	(1,500)

All amounts relate to continuing activities

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

Sovereign Equity Release Limited

Company number: 6178651

Balance sheet at 30 April 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	5	**8,116**	8,292
		8,116	8,292
Creditors			
Amounts falling due within one year	6	**(8,393)**	(9,658)
Total assets less current liabilities		**(277)**	(1,366)
Capital and reserves			
Called up share capital	7	**1**	1
Share premium account	8	**497**	497
Revaluation deficit	8	**(986)**	(1,791)
Profit and loss account	8	**211**	(73)
Shareholders deficit	9	**(277)**	(1,366)

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

Director
S A Burgess

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

1 Accounting policies

Basis of preparation

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

Cash flow statement

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

Tangible assets

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

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

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

Deferred taxation

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

Deferred tax balances are not discounted

Dividends

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

2 Employees and directors

There were no employees durıng the year apart from the dırectors None of the directors receıved any remuneratıon ın respect of theır servıces to the company

3 Operatıng loss

	2010	2009
	£'000	£'000
Operatıng loss ıs stated after chargıng		
Audıtors' remuneratıon – audıt servıces	6	6

4 Taxation on loss on ordinary activities

	2010	2009
	£'000	£'000
Current tax		
UK corporatıon tax on ordınary profit /(loss) for the year	(14)	-
UK corporatıon tax on realısed profits transferred from revaluation reserve	14	
	-	-

The reasons for the dıfference between the actual tax charge for the year and the standard rate of tax applied to the profit/(loss) for the year are as follows.

Profit/(loss) on ordınary actıvıtıes before tax	**234**	(48)
Profit/(loss) on ordınary actıvıtıes at 28 0% (2009 28 0%)	**65**	(13)
Capıtal gaıns chargeable for the year	**95**	
Indexatıon allowance	**(81)**	
Group relıef claımed	**(65)**	
Un-utılısed losses	-	13
Utılısed losses	**(14)**	
Current tax charge for perıod	-	-

The company provıdes deferred tax on gaıns arısıng from the revaluatıon of properties to theır market value only where there ıs a bındıng agreement to sell the asset There were no such agreements as at 30 Aprıl 2010 At 30 Aprıl 2010 the amount of deferred tax unprovıded on the surplus on revaluatıon of fixed assets ıs £nıl (2009 £nıl)

5 Tangible fixed assets

	Assets held for resale	Home reversions	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 May 2009	1,206	7,086	**8,292**
Additions	-	219	**219**
Transfer to assets held for resale	78	(78)	**-**
Revaluation	37	818	**855**
Disposals	(1,250)	-	**(1,250)**
At 30 April 2010	**71**	**8,045**	**8,116**

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

The historical cost of the home reversions held at 30 April 2010 was £9,102,000 (2009 £10,083,000)

Vacant properties were valued by the directors on a net realisable value basis as at 30 April 2010

6 Creditors - Amounts falling due within one year

	2010	2009
	£'000	£'000
Other creditors	**14**	14
Amounts owed to group undertakings	**8,379**	9,644
	8,393	9,658

7 Share capital

	Allotted, called up and fully paid	
	2010	**2009**
	£	**£**
500 ordinary shares of £1 each	**500**	500

8 Share premium and reserves

	Share Premium £'000	**Revaluation reserve £'000**	**Profit and loss account £'000**
At 1 May 2009	497	(1,791)	(73)
Profit for the year	-	-	248
Tax on realised profit transferred from revaluation reserve	-	-	(14)
Revaluation in year	-	855	-
Transfer of realised profit	-	(50)	50
At 30 April 2010	**497**	**(986)**	**211**

9 Reconciliation of movement in shareholder's deficit

	2010 £'000	**2009 £'000**
Opening shareholder's (deficit)/funds	**(1,366)**	134
Profit/(loss) for the financial year	**248**	(48)
Taxation on valuation surplus realised on sale of properties	**(14)**	-
Unrealised revaluations in period	**855**	(1,452)
Closing shareholder's deficit	**(277)**	(1,366)

10 Capital commitments

As at 30 April 2010 the Company has entered into arrangements to acquire property interests under home reversion plans in equal tranches over five years The total value of the instalments at 30 April 2010 is £32,280 (2009 £40,350) These transactions were entered into in the normal course of business

11 Ultimate controlling party

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

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

12 Related Party Transactions

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