4

Registration number 07620195

New Sovereign Reversions Limited

Directors' report and financial statements

for the period ended 30 September 2012

Company information

Directors	Andrew R Cunningham Peter Q P Couch Nicholas M F Jopling Nicholas P On Mark Greenwood Graham Sidwell Paul Barber
Secretary	Michael P Windle
Company number	7620195
Registered office	Citygate St James' Boulevard Newcastle Upon Tyne NE1 4JE
Independent auditors	PricewaterhouseCoopers LLP 89 Sandyford Road Newcastle Upon Tyne NE1 8HW
Bankers	Barclays Bank Plc Barclays House 71 Grey Street Newcastle Upon Tyne NE99 1JP
Solicitors	Dickinson Dees St Ann's Wharf 112 Quayside Newcastle Upon Tyne NE99 1SB

New Sovereign Reversions Limited

Directors' report and financial statements
for the period ended 30 September 2012

Contents

New Sovereign Reversions Limited

Directors' report for the period ended 30 September 2012

The directors present their report and the audited consolidated financial statements for the period from 3 May 2011 to 30 September 2012

Principal activities
The principal activity of the group is investment in equity release plans

Review of business
The company was established on 3 May 2011 and is jointly owned by Grainger Equity Release Limited, a subsidiary of Grainger plc and MREF II Equity Release Limited, a subsidiary of Moorfield Real Estate Fund II GP Limited, as general partner of Moorfield Real Estate Fund II A Limited Partnership and Moorfield Real Estate Fund II B Limited Partnership

The strategy of the business is to assist homeowners in their later years and in retirement through equity release solutions The capital of the business is substantially invested in equity release plans (mainly residential properties) subject to lifetime leases

Since establishment the group has successfully completed the refinancing of group debt with a £31 5m facility agreed in July 2011 for a term of five years The consolidated profit and loss account for the period is set out on page 7 Dividends totalling £3 8m have been paid in the period

Risks, uncertainties and financial instruments
The main financial risks affecting the business are as follows

- Interest rate risk
- Working capital and liquidity risk
- Residential property market risk
- Longevity risk

Interest Rate Risk
Interest is charged on the Group's borrowings at a margin over LIBOR, consequently, the Group is exposed to movements in LIBOR It is the Group's policy to mitigate this risk though the use of hedging instruments which have the effect of limiting its exposure to increases in LIBOR The Company has entered into hedging agreements to cap the interest rate on 85% of borrowings 50% of borrowings are subject to a swap agreement at a rate of 2 0875%, with the remaining 35% of hedged borrowings being subject to a cap at 3%

The directors review the Group's cash flow projections regularly and report on these to the Board at regular board meetings Current projections indicate that the Group has sufficient cash to meet its obligations under all reasonably expected circumstances

Liquidity Risk
Liquidity risk is the risk of encountering difficulty in meeting financial obligations as they fall due The Group manages its working capital to minimise this risk The Group is dependent on the successful sale of vacant properties to generate cash inflows and working capital

The Group's policy is to ensure it has sufficient cash available or agreed terms to draw down further debt instruments to meet its liabilities and the net requirement for equity release investments when they become due

The Group seeks to maintain cash balances to meet expected requirements for a period of at least 12 months, using current expectations for the timing and proceeds from the sale of group properties

Residential Property Market Risk
The Group is exposed to potential risk if the value of its equity release assets falls as a result of a general decline in the residential property market In particular, this could cause breaches of the Group's loan to value banking covenants which would technically enable the Group's bankers to call in loans and/or sell long-term investments at below market value The Group seeks to mitigate this risk by ensuring that it remains well within its lenders' loan to value criteria Based on asset values and drawn borrowings at the year end date, the value of the Group's investments would need to fall by 14 5% before banking covenants would be breached

The Group's investment portfolio is well diversified geographically in the UK to avoid undue concentration risk

Longevity Risk
The Group's equity release investments are designed to be held for a period of years, the Group derives its cash flows and financial returns by selling the underlying properties when they fall vacant at the end of the life tenancy or loan In the event that life expectancy increases for a cohort with an average age of 80, it is likely that the average holding period for the assets will increase correspondingly and thus delay the timing of the cash flows from sales However, there is no clear correlation between the financial returns on these assets and the period held Holding the assets for a longer than expected period may equally increase or decrease the ultimate return achieved, depending on the change in the value of the underlying property over the additional period The Board does not therefore consider that the Group has any significant direct exposure to longevity risk

Going Concern
The directors have reviewed the cash flow projections for the company and the group and have considered the financial resources available including bank finance The directors have an expectation that the company and the group have adequate resources to continue operations for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

Charitable and political contributions
No charitable or political contributions were made during the year

Payment of creditors
It is the company's policy to agree terms with a supplier, ensure that the supplier is aware of these terms, and to abide by the agreed terms of payment

Auditors and disclosure of information to auditors
So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware Each director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and establish that the company's auditors are aware of that information

Director's Report for the period ended 30 September 2012 (continued)

Directors
The directors who served during the year, and up to the date of signing, are as stated below

Andrew R Cunningham	(appointed 3 May 2011)
Peter Q P Couch	(appointed 3 May 2011)
Nicholas M F Jopling	(appointed 3 May 2011)
Nicholas P On	(appointed 3 May 2011)
Mark Greenwood	(appointed 3 May 2011)
Graham Sidwell	(appointed 12 July 2011)
Paul Barber	(appointed 3 May 2011)

Statement of directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

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

New Sovereign Reversions Limited

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

This report was approved by the Board on 7 January 2013 and signed on its behalf by

Michael P Windle
Company secretary

New Sovereign Reversions Limited

Independent auditors' report to the shareholders of New Sovereign Reversions Limited

We have audited the group and parent company financial statements (the "financial statements") of New Sovereign Reversions Limited for the period ended 30 September 2012 which comprise the Consolidated Profit and Loss account, the Group and Company Balance sheets, Consolidated Cash flow statement, Reconciliation of operating profit to net cash flow from operating activities and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement as set out on page 2 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 and express an opinion on 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 Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 group's and parent 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 In addition, we read all the financial and non-financial information in the Directors report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements.

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2012 and of the group's loss and cash flows for the period 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 period for which the financial statements are prepared is consistent with the financial statements

New Sovereign Reversions Limited

Independent auditors' report to the members of New Sovereign Reversions Limited

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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 explanations we require for our audit

Jonathan Greenaway (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle Upon Tyne

7th January 2013

New Sovereign Reversions Limited

Consolidated profit and loss account for the period ended 30 September 2012

	Note	3 May 2011 to 30 September 2012 £
Turnover		8,935,926
Cost of sales		(7,238,178)
Gross profit		1,697,748
Administration expenses		(1,310,166)
Operating profit		387,582
Interest receivable and similar items	4	12,566
Interest payable and similar charges	5	(2,018,352)
Loss on ordinary activities before taxation	3	(1,618,204)
Tax on Loss on ordinary activities	6	136,354
Loss for the financial period	14	(1,481,850)

All amounts relate to continuing operations

There are no recognised gains or losses other than the loss for the above period and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 10-18 form an integral part of these financial statements

New Sovereign Reversions Limited

Balance sheets as at 30 September 2012

	Note	2012 Group £	2012 Company £
Fixed assets			
Investments	8	-	8,654,976
Current assets			
Stock	9	59,542,270	-
Debtors	10	431,456	-
Cash		2,529,538	-
		62,503,264	-
Creditors amounts falling due within one year	11	(2,935,335)	-
Net current assets		59,567,929	-
Total assets less current liabilities		59,567,929	8,654,976
Creditors amounts falling due after more than one year	12	(25,454,038)	-
Net assets		34,113,891	8,654,976
Capital and reserves			
Called up equity share capital	13	8,654,976	8,654,976
Profit and loss account	14	(5,281,850)	-
Merger reserve	15	30,740,765	-
Shareholders' funds	15	34,113,891	8,654,976

The financial statements on pages 7 to 18 were approved by the board of directors on 7 January 2013 and were signed on its behalf by

Paul Barber
Director

P.T. Ba

Company registration number 07620195

The notes on pages 10-18 form an integral part of these financial statements

New Sovereign Reversions Limited

Consolidated cash flow statement
for the period ended 30 September 2012

	Note	3 May 2011 to 30 September 2012
Net cash inflow from operating activities		**6,000,456**
Returns on investment and servicing of finance		
Interest received		**12,566**
Interest paid		**(1,498,068)**
Net cash outflow from returns on investment and servicing of finance		**(1,485,502)**
Taxation		**47,000**
Acquisitions and Disposals		
Net cash acquired with subsidiaries		**2,323,106**
Cash inflow before dividends and financing		**6,885,060**
Equity Dividends paid		
Dividends paid		**(3,800,000)**
Cash outflow before financing		**3,085,060**
Financing		
New debt drawn	16	**30,106,532**
Debt repaid		**(30,662,054)**
Net cashflow from financing		**(555,522)**
Increase in cash in the year	16	**2,529,538**

All cash movements detailed above relate to subsidiary undertakings acquired in the period

New Sovereign Reversions Limited

Reconciliation of operating profit to net cash flow from operating activities

	2012
	£
Operating profit	387,582
Decrease/(increase) in debtors	(201,585)
Increase/(decrease) in creditors	(108,534)
Decrease in stocks	5,922,993
Net cash inflow from operating activities	**6,000,456**

Notes to the financial statements for the period ended 30 September 2012

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the year, are set out below

Going concern
The directors have reviewed the cash flow projections for the company and the group and have considered the financial resources available including bank finance The directors have an expectation that the company and the group have adequate resources to continue operations for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

Investments
Investments are stated at cost less provisions for any impairment in value

Basis of consolidation
The group financial statements consolidate the financial statements of the Company and all its subsidiary companies As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company The profit for the financial period dealt with in the financial statements of the parent Company was £3,800,000

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

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

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

Turnover
Turnover comprises gross trading property sales, management fees and sundry other income, exclusive of VAT Sales of properties are only accounted for when the cash proceeds are received in full or the company has entered into a legally binding contract

Stock
Trading properties are shown in the financial statements at the lower of cost to the company and net realisable value Cost to the company includes legal and surveying charges incurred during the acquisition plus improvement costs Net realisable value is the net sale proceeds which the company expects on sale of a property with vacant possession

Repairs are expensed in the profit and loss account as incurred Improvement costs are capitalised

Bank Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issues costs Finance charges, including premiums payable on settlement or redemption and direct issues costs, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

New Sovereign Reversions Limited

2 Turnover

The total turnover of the company has been derived from its principal activity wholly undertaken in the UK as defined in the directors' report

3 Loss on ordinary activities before taxation

Group	3 May 2011 to 30 September 2012 £
Loss on ordinary activities before taxation is stated after charging	
Fees payable to the Company's auditors for the audit of the Company's annual accounts	-
Fees payable to the Company's auditors and their associates for other service to the Group	
The audit of the Company's subsidiaries pursuant to legislation	**35,000**

Audit fees are statutory audit fees only and are borne by another Group company

There are no persons holding service contracts with the company None of the directors received any remuneration from the company during the year, or in the previous year

4 Interest receivable

Group	3 May 2011 to 30 September 2012 £
Bank interest receivable	**12,566**

5 Interest payable and similar charges

Group	3 May 2011 to 30 September 2012 £
Interest payable on bank loans (Note 12)	**1,713,793**
Amortisation of capitalised finance costs (Note 12)	**304,559**
	2,018,352

New Sovereign Reversions Limited

6 Tax on Loss on ordinary activities

Group (a) Analysis of corporation tax credit for the period	**3 May 2011 to 30 September 2012** **£**
UK corporation tax based on the results for the period at 25%	-
Adjustment relating to prior year computations submitted by subsidiaries	**136,354**
Tax credit	**136,354**

(b) Factors affecting tax credit for the period

The differences between the total current tax shown below and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows

Group	**3 May 2011 to 30 September 2012** **£**
Loss on ordinary activities before taxation	**1,618,204**
Loss on ordinary activities before taxation at a rate of 25%	**404,551**
Utilisation of tax losses not previously recognised	**(462,218)**
Non taxable income	**(54,527)**
Deferred tax assets not recognised	**112,194**
Prior year adjustment (see above)	**136,354**
Tax credit in the year	**136,354**

Deferred tax assets have not been recognised in respect of the group's trading losses and capital losses The tax value of these assets is £969,131 and £61,264 respectively

No provisions have been made for the tax that would become payable if the group's properties were to be sold at their year end carrying values (£59,542,270) and replacement values (£59,799,078) The total unprovided tax in respect of this is £2,677,193 and £2,736,259 respectively There are no other factors that are expected to significantly affect the taxation charge in future years

7 Dividends on equity shares

Company and Group	**3 May 2011 to 30 September 2012** **£**
Amounts recognised as distributions to equity holders in the period	**3,800,000**

New Sovereign Reversions Limited

8 Investments

Company	2012 £
Cost and net book value	
At 23 May 2011	-
Acquired in the period	16,081,667
Capital reduction relating to Sovereign Reversions Limited	(7,426,691)
At 30 September 2012	8,654,976

The company owns 100% of the issued share capital of the companies listed below, which are incorporated in England and Wales

Name	Nature of business
Sovereign Reversions Limited	Investment in equity release assets
Sovereign Reversions Holdings Limited	Investment Company

9 Stock

Group

	2012 £
Trading Properties	59,542,270

Replacement value of stock (sale at market value of the property subject to occupation by a resident) is £59,799,078 based on market values at 30 September 2012

Stock is stated in the balance sheet at the lower of cost and net realisable value Net realisable value is the net sales proceeds which the company expects on sale of a property with vacant possession The directors have reviewed the vacant possession valuations of the properties They have concluded that the net realisable value exceeds the book cost of the properties and therefore no provision against the carrying value of stock is required

10 Debtors

Group	2012 £
Trade Debtors	68,036
Other Debtors	313,807
Prepayments and accrued income	49,613
	431,456

New Sovereign Reversions Limited

11 Creditors amounts falling due within one year

Group	2012 £
Bank loans and overdrafts	2,280,000
Trade creditors	81,941
Other taxation and social security	3,764
Accruals and deferred income	569,630
	2,935,335

12 Creditors: amounts falling due after more than one year

Group	2012 £
Bank loan	25,454,038

The bank loan is repayable over 5 years from its inception in July 2011 Interest is charged at a floating rate of 2 35% above LIBOR The bank loan is secured on the property portfolio

The repayment profile of the bank loan has been calculated by actuaries, based on tenant profiles, on the assumption that repayments are made on tenant vacancy and subsequent property sale

Group	2012 £
Within one year	2,280,000
One to two years	2,290,379
Two to five years	24,196,620
Gross repayments	**28,766,999**
Less finance costs	(1,032,960)
Net repayments	**27,734,039**

13 Called up equity share capital

	2012 Group £	2012 Company £
Authorised, allotted, called up and fully paid		
8,654,976 ordinary shares of £1	8,654,976	8,654,976

14 Profit and loss account

	2012 Group £	2012 Company £
At 3 May 2011	-	-
(Loss)/Profit for the financial period	(1,481,850)	3,800,000
Equity Dividends paid	(3,800,000)	(3,800,000)
At 30 September 2012	**(5,281,850)**	-

15 Reconciliation of movements in group shareholders' funds

	2012 Group £	2012 Company £
Opening shareholders' funds	-	-
(Loss)/Profit for the financial period	(1,481,850)	3,800,000
Equity shares issued during the period	8,654,976	8,654,976
Equity dividends paid	(3,800,000)	(3,800,000)
Transfer to merger reserve (see note 17)	30,740,765	-
Closing shareholders' funds	**34,113,891**	**8,654,976**

16 Reconciliation of movement in net debt

	At 3 May 2011	Acquisitions	Cashflow	Non cash movements	At 30 September 2012
	£	£	£	£	£
Cash	-	2,323,106	206,432	-	**2,529,538**
Debt due within one year	-	(27,985,000)	27,985,000	(2,280,000)	**(2,280,000)**
Debt due after one year	-	-	(29,127,506)	3,673,468	**(25,454,038)**
	-	(25,661,894)	(936,074)	1,393,468	**(25,204,500)**

Non cash movements represent the capitalisation of interest on the bank loan and the amortisation of capitalised finance raising costs

17 Acquisitions in the period

On 25 July 2011 the Company acquired 100% of the issued share capital of Sovereign Reversions Limited by means of a share for share exchange The fair value of the total consideration was £25 5m In accordance with 'Section 612 – Merger Relief' of the Companies Act 2006, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued The resulting difference on consolidation has been credited to other reserves

Acquisitions are accounted for under the acquisition method

The following table sets out the fair value of assets acquired by the Group

	£
Current assets	
Trading Property	**51,178,986**
Debtors	**7,990**
Cash	**1,917,692**
Total assets	**53,104,668**
Creditors falling due within one year	**(27,577,356)**
Net Assets	**25,527,312**
Satisfied by	
Shares Issued	**8,654,976**
Taken to other reserves (see note 15)	**16,872,336**
	25,527,312

17 Acquisitions in the period (continued)

On 25 July 2011 the Company also acquired 100% of the issued share capital of Sovereign Reversions Holdings Limited The fair value of the total consideration was £13 9m In accordance with 'Section 611 – Group Reconstruction Relief' of the Companies Act 2006, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued The resulting difference on consolidation has been credited to other reserves

Acquisitions are accounted for under the acquisition method

The following table sets out the fair value of assets acquired by the Group

	£
Current assets	
Trading Property	**14,286,278**
Debtors	**132,524**
Cash	**405,414**
Total assets	**14,824,216**
Creditors falling due within one year	**(955,787)**
Net Assets	**13,868,429**
Satisfied by	
Taken to other reserves (see note 15)	**13,868,429**

18 Related party transactions

The company has taken advantage of the exemption available under Financial Reporting Standard No 8 and has not disclosed transactions with companies that are part of the New Sovereign Reversions Limited group

During the period the group was charged management fees totalling £1,547,992 by Grainger Equity Release Management Limited, which is deemed to be a related party as defined by FRS8 by virtue of Grainger Equity Release Management Limited's ultimate parent company, Grainger plc, holding a 50% interest in New Sovereign Reversions Limited's immediate parent company, Grainger Equity Release Limited At 30 September 2012 £166,276 was outstanding in relation to these management fees

19 Parent undertaking

New Sovereign Reversions Limited is a 50/50 joint venture between MREF II Equity Release Limited ("Moorfield", a company registered in Jersey) and Grainger Equity Release Limited ("GERL" a company registered in England and Wales) The ultimate controlling party of GERL is Grainger plc, a company registered in England and Wales The ultimate controlling parties of MREF II Equity Release Limited are Moorfield Real Estate Fund II A Limited Partnership and Moorfield Real Estate Fund II B Limited Partnership which are qualifying partnerships registered in England and Wales