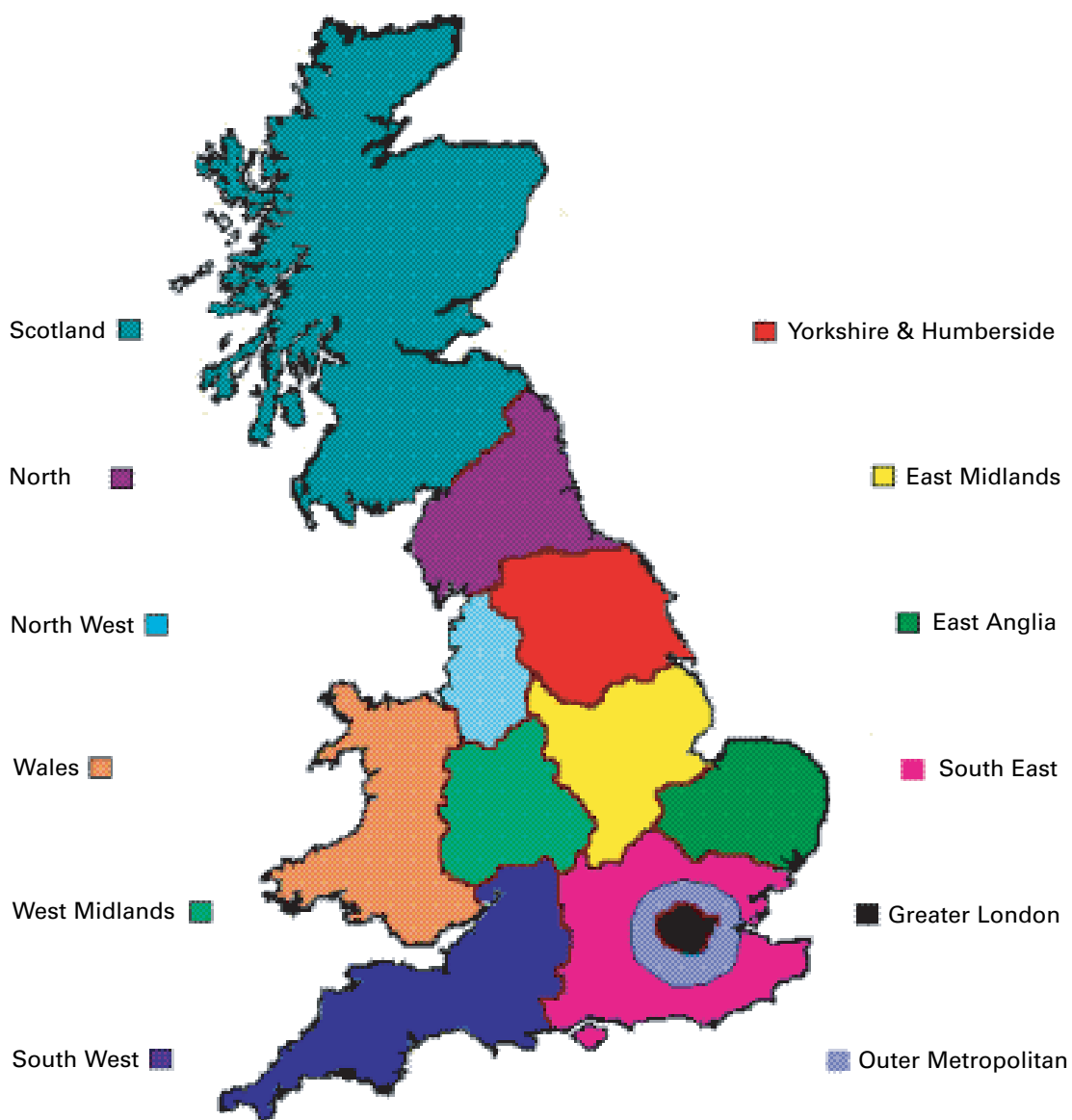


SOVEREIGN REVERSIONS PLC

FINANCIAL STATEMENTS
for the year ended
30 April 2002

Life Tenancy Portfolio



Area	Vacant possession	
	Value £m	Number of properties
South West	4.0	42
Outer South East	4.4	41
Outer Metropolitan	2.9	26
Greater London	1.8	11
West Midlands	2.7	30
East Midlands	2.2	27
East Anglia	1.5	15
North West	1.7	30
Yorks & Humberside	2.6	42
North	0.6	11
Wales	0.8	13
Scotland	0.5	6
Totals	£25.7m	294

Sovereign Reversions plc

Background

Sovereign Reversions plc was formed in 1992 under the Business Expansion Scheme to invest in life tenancy reversions. In 1999 Home Equity Limited took over the company's management and we arranged for our shares to be dealt on OFEX.

Our manager, Home Equity Limited, is a private company owned by Graeme Marshall and Rupert Pearce Gould, the executive directors of Sovereign. As well as being substantial shareholders in Sovereign, the executive directors own 87% of the company's performance-related warrants.

Property management is provided by Home & Capital Trust Limited, an associate of Home Equity Limited through common shareholders and directorships. Home & Capital Trust Limited has over 1,200 properties under management whose vacant possession value exceeds £100 million. As a market leader in the arrangement of life tenancy reversions, it is also a source of new properties.

Objective

Our goal is to become a substantial owner of life tenancy reversions. We intend to expand both organically and through the acquisition of similar companies or portfolios to achieve an improved spread of risk and economies of scale.

Performance

	30 April 1999	30 April 2000	30 April 2001	30 April 2002
Net assets (£'000)	2,236	2,920	9,154	11,405
Net asset value per share				
Full (pence)	127.8	139.9	187.5	236.4
Diluted (pence)			183.8	224.4
Investment properties				
Vacant possession value (£'000)	3,281	4,397	20,753	27,032
Per share (pence)	187	211	425	560
Operating cash flow (£'000)	189	427	500	1,238

Officers and Advisers

Directors

Robert Lo (Chairman)

Robert Lo, aged 50, has been a director of the company since inception. A qualified solicitor, he is an executive director of Nabarro Wells & Co Ltd, a corporate finance advisory firm. He is a non-executive director of SFI Group PLC.

Graeme Marshall

Graeme Marshall, aged 49, is chief executive of Home Equity Limited, managing director of Home & Capital Trust Limited and a director of Safe Home Income Plans, the association responsible for setting standards for consumer protection in the equity release industry. A qualified chartered accountant, he has been active in life tenancy reversions since 1997, having spent the previous nine years in investment banking.

Rupert Pearce Gould

Rupert Pearce Gould, 50, is executive chairman of Cambridge Corporate Consultants Limited, our corporate finance adviser. A qualified chartered accountant, he is joint chairman of Home & Capital Trust Limited, a director of Home Equity Limited and a non-executive director of a number of other public and private companies.

Managers

Home Equity Limited
Black Knoll House, Rhinefield Road,
Brockenhurst Hampshire SO42 7QE
Tel 01590 623833 Fax 01590 623576
Email home_equity@blackknoll.co.uk
Contact: Graeme Marshall

Stockbrokers

James Sharp & Co
Exchange House, 39 Knowsley Street,
Bury, Lancs BL9 0ST
Tel 0161 764 4043 Fax 0161 764 1628
Email mail@jamessharp.co.uk
Contact: Martin Entwistle

Registered Office

10 Dover Street, London W1X 3PH
Company number 269624 (England and Wales)

Corporate Advisors

Cambridge Corporate Consultants Limited
Harston Manor, Harston, Cambridge CB2 5NT
Tel: 01223 870768
Email ccc@3c4finance.co.uk

Auditors

Baker Tilly

Registrars

Northern Registrars Limited
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield HD8 0LA
Tel 01484 600900
Email
shareholder.services@northernregistrars.co.uk

Bankers

Bank of Scotland
Nationwide Building Society

Solicitors

Heald Heffron
Thring Townsend
Graham Harvey

Website

www.sovereign-reversions.co.uk

Chairman's Statement

In the last year we achieved a 26% increase in net assets per share to 236 pence. Compound annual growth over the three years since new managers were appointed in 1999 has been 22.8%.

Following our acquisitions in 2001, profitability and cash flow have developed satisfactorily. Our pre-tax profit increased from £19,000 to £224,000; cash realised from property sales grew from £630,000 to £1,474,000.

We have been assisted by a continuing strong property market. The Nationwide All UK Property Index increased by 16.5% in the year to April 2002 and has grown by 13.4% compound per annum in the three years from April 1999. Our net assets per share have grown at almost twice this rate, reflecting, inter alia, the level of discounts at which we have been able to acquire properties and the benefits of good property selection.

During the year, we invested £2.5m in life tenancies; our investment portfolio has increased from 283 to 312 properties, after 29 sales. Our current investment programme includes two portfolios and a number of new reversions. The vacant possession value of our investment properties is now over £27m. Although it seems likely that the residential property market will undergo a slowing of growth, and even a short-term correction at some stage, we remain confident in the long-term prospects for this market.

Our share price increased by 42% over the year – from 120 pence to 170 pence – based on OFEX mid-market indicated prices at 30 April in 2001 and 2002. Following the increase in the size of our share register in early 2001, there was a marked improvement in the liquidity in our shares. In the calendar year OFEX recorded 1.3m shares traded – mainly through James Sharp & Co – as 13% of our shares changed hands. The volume traded was largely due to sales by shareholders who had acquired their shares as a result of our acquisitions last year. Since the year end our share price has increased to 185 pence, although dealing activity has dropped back as there now appears to be a shortage of sellers.

The excellent performance and our ability to respond to the market is very largely due to our management. They are arguably the most active and best informed team in the market place and this is being reflected in the performance and valuation of your company. We intend to continue expanding the company and to take advantage of opportunities as they occur in the market place. There are now few comparable companies offering investors a geared exposure to residential property and we will continue to build on the leading position we have established in this market.

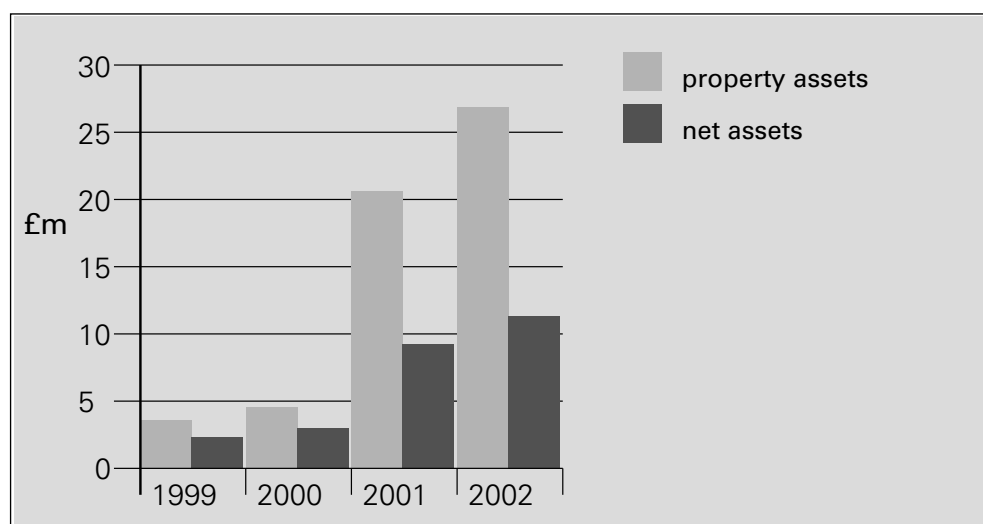
Robert Lo
Chairman

19 June 2002

Manager's Report

Asset value

We have continued to implement our policy of increasing the size of our property portfolio. Growth in assets has also been enhanced through the increase in the value of our properties following the independent valuation carried out at 30 April 2002.



Investments

Movements in our property portfolio during the year have been as follows:

	At 30 April 2001	End of tenancies	Purchases	Sales	At 30 April 2002
Life tenancies	265	(29)	58		294
Assured tenancies	3				3
Properties for sale	15	29		(29)	15
Total	283	0	58	(29)	312

Purchases

During the year we invested £2.5m in life tenancies. 42 properties were acquired individually as new reversions through Home & Capital Trust Limited; we also bought a portfolio of 16 properties. In addition, one tenancy ended and the property was re-let on a new life tenancy.

We remain active buyers; we have an investment programme in new reversions, and supplement this by bidding for portfolios as and when they become available. As at 30 April 2002, we had made agreed offers (all subject to contract) for 55 life tenancies at a total cost of £3.4m.

Vacancies and sales

The vacation pattern has been ahead of expectations. The quality of the properties acquired from the Reversionary Gains companies has been somewhat mixed and some have taken a number of months to sell. However, sale prices achieved have averaged 3% above last year's independent valuations.

The calendar year 2002 began quietly, but there has been more active buying interest since the Spring. A number of our vacant properties are now under offer at satisfactory prices. The 15 vacant properties at 30 April 2002 will serve to underpin Sovereign's cash flow in the current financial year, even if the vacation pattern slows.

Manager's Report

Maintenance

It is our experience that an active manager in regular contact with its tenants will generally encounter fewer problems with poorly maintained properties. It is our policy to require our property managers to visit all of our tenants on a two year cycle and any portfolios acquired, where not already managed by Home & Capital, within 12 months of acquisition. Where reversions have been arranged by Home & Capital, or where they have been managed by Home & Capital prior to our acquiring them, an "active management" policy will already be in place.

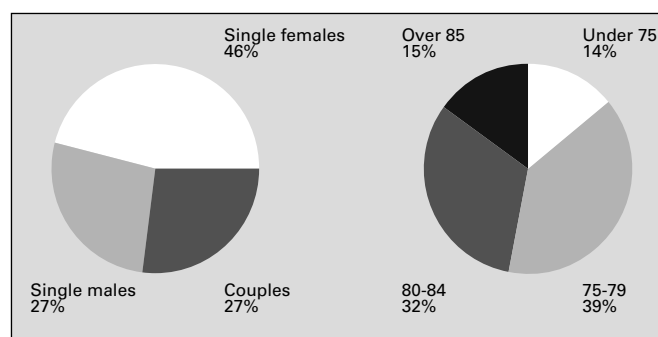
Valuation

Life tenancies acquired prior to 30 April 2001 have been independently valued by Allsop & Co as at 30 April 2002. One third of these properties were inspected. The vacant possession value of the life tenancies inspected increased by 20.5% (compared with 16.5% growth in the Nationwide All UK Property Index over the same period). The vacant possession value of properties held at 30 April 2001 has been increased by 16.1% as a result of the independent valuation.

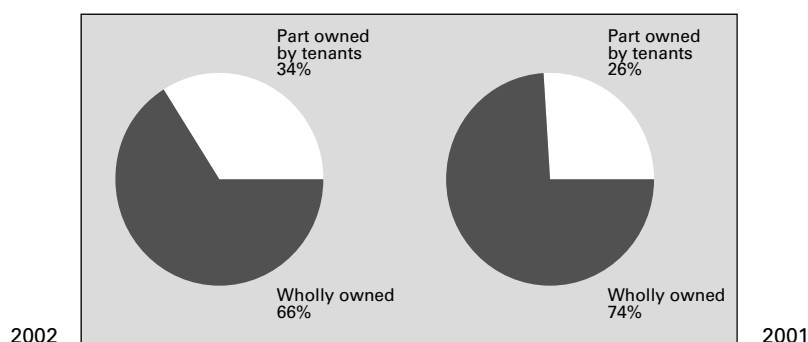
The life tenancy investments are carried in the company's accounts at an average of 56% of their vacant possession value. We continue to adopt a conservative basis for discounting the vacant possession value of properties to allow for tenants' occupancy. The result of our accounting treatment is that the majority of the capital gain from our investments is only reflected in asset values when the tenancies end.

Tenancy profile

We expect our tenancy profile to continue to generate strong cash flows. Over 80% of our tenancies commenced more than 8 years ago. 47% of our tenants are over 80 years old.



Equity release plans are steadily becoming less of a "last resort" option and more of a financial planning tool for the elderly. This trend has been assisted by the rise in property values. Increasingly, prospective vendor/tenants are defining their cash requirement, which then determines the proportion of the property they sell. This is reflected in our portfolio by the increasing proportion of properties where ownership is shared with tenants.



Spread of investments

Our life tenancy portfolio at 30 April 2002 is shown on the inside front cover. Our policy is to acquire properties across a wide geographical region, avoiding undue concentration in any area. During the year, we increased the proportion of our assets in East and West Midlands, East Anglia, the South East and the South West and reduced it in the Greater London/ Outer Metropolitan area.

Manager's Report

Capital Reversions PLC

We own 29.5% of Capital Reversions PLC, which is also a residential life tenancy company. Capital Reversions PLC's last audited accounts, to 31 March 2001, showed a net asset value of £1,936,000, equivalent to around 153 pence per share compared to an average cost of 116p per share. We are carrying this investment at cost.

Financing and liquidity

At the beginning of the year we had £2.3m in cash; surplus cash flow from property sales, net of operating costs, amounted to a further £1.2m. We have substantially utilized our cash balances and cash flow in buying £2.5m of life tenancies and repaying the short-term loan of £0.5m relating to our acquisitions last year.

During the year we have fixed £2.5m of our long-term debt for a period of five years at 5.46% per annum, plus margin.

We have increased our facilities with both of our main lenders and reorganized them so that we are able to re-draw on them. This gives us the flexibility to reduce our borrowings when the proceeds from property sales give us a short-term positive cash flow, but retain immediate access to substantial funding for further investment. We are therefore well positioned to acquire further portfolios for cash as they become available.

Share repurchase

In February 2002 we offered to repurchase the holdings of our smallest shareholders at a price of 140 pence per share. This offer was accepted by 65% of recipients and was completed in March 2002 at a total cost of £87,000.

Operating performance

Profitability

The nature of our business is to acquire properties at a substantial discount in return for granting life-long rent-free leases. Our financial return on our investments occurs on the sale of the vacant properties at the end of their tenancies, rather than from rental income. The table below shows the operating result from this activity over the last four years:

	1999 £'000	2000 £'000	2001 £'000	2002 £'000
Sale of investment properties:				
Realised profit	(3)	49	220	493
Revaluation realised	132	183	135	195
Profit on original cost	129	232	355	688
Rental income	13	6	5	23
Administrative expenses	(89)	(80)	(135)	(259)
Operating profit before finance costs and taxation	<u>53</u>	<u>158</u>	<u>225</u>	<u>452</u>

The above figures are derived from the consolidated profit and loss account. This is a different presentation of these items from our statutory accounts, where:

- the realised return from property sales is allocated between "realised profit on sale of investment properties", which shows the surplus over the last valuation of the properties sold and "realised profit transferred from revaluation reserve"; and
- administrative expenses are shown net of amortisation of intangible assets.

Manager's Report

Administrative expenses

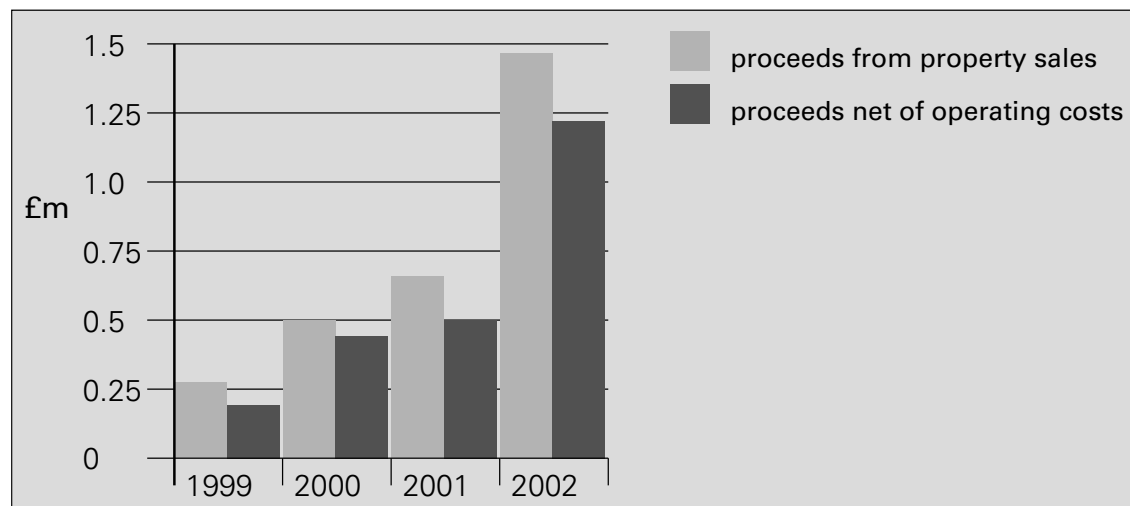
Costs comprised:

	2001 £'000	2002 £'000
Management fees:		
Corporate management	45	84
Property management	21	52
Property expenses	2	21
Directors' fees	6	6
Audit fees	9	12
Other professional fees	15	27
Secretary and registrar	4	6
OFEX costs	5	10
Other items	10	5
Irrecoverable VAT	18	36
Total expenses	135	259
Less: amortisation of negative goodwill	(49)	(191)
Per Profit and Loss Account	86	68

The increase in administrative expenses largely reflects the increase in the property portfolio and net assets as a result of the acquisition of the Reversionary Gains companies in the last quarter of the year to April 2001. Administrative expenses per property have continued to fall. The basis for management fees is explained on page 9 of the Directors' Report.

Cash flow

The development of both operating profitability and operating cash flow over the last four years is encouraging. It demonstrates that a portfolio of life tenancy reversions is capable of generating a consistent performance over time.



As we currently hold vacant properties with an open market value in excess of £1m, we believe we should be able to maintain strong cash flows in the current financial year.

Graeme Marshall
Chief Executive
Home Equity Limited

19 June 2002

Directors' Report

Corporate governance

As a property investment company with no employees, the directors do not consider it appropriate to adopt all the requirements of the Combined Code, including the Code of Best Practice. However, the directors have ensured that:

- they meet regularly to review the overall business of the company, to monitor investment performance and to formulate policy for the company's future development;
- they maintain full authority for setting the company's investment, acquisition and financing policy;
- the manager is required to maintain a reserve of cash or bank facilities to meet ongoing expenses;
- all payments require the signature of a director; and
- no director participates in any decision of the company in which he also has an interest.

The directors believe that these procedures enable it to exercise adequate control over the company's activities.

Statement of directors' responsibilities

Company law requires directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, directors are required to:

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

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

Management and administration

Home Equity Limited provides corporate and property management services to the company under an agreement dated 20 May 1999. The agreement is terminable at twelve months' notice. Under the agreement, Home Equity Limited receives a corporate management fee of 1% (plus VAT) per annum of the first £5m of net assets, 0.75% per annum on net assets of between £5m and £10m and 0.5% per annum on net assets in excess of £10m. It also receives a property management fee of £185 (plus VAT) per property per annum, reviewed annually on 30th June, plus a fee of between 1% and 1.5% of the net proceeds of properties sold. Home Equity Limited pays property management fees to Home & Capital Trust Limited, a related company, to which it has sub-contracted the property management function.

Payment of creditors

The company's policy is to agree terms of payment when entering into major business transactions, to ensure that the supplier is aware of these terms, and to abide by the agreed terms of payment.

Auditors

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board

Graeme Marshall
Director

19 June 2002

Auditors' Report

Independent Auditors' Report to the Members of Sovereign Reversions plc

We have audited the financial statements on pages 11 to 22

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, and the Managers 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 opinion

We conducted our audit in accordance with Auditing Standards 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 judgments 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.

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 of the state of affairs of the company and the group at 30 April 2002 and of group profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
City Plaza
Temple Row
Birmingham
B2 5AF

19 June 2002

Consolidated Profit and Loss Account

For the year ended 30 April 2002

	Notes	2002 £'000	2001 £'000
Turnover	1	23	5
Administrative expenses	2	<u>(68)</u>	<u>(86)</u>
Operating loss		(45)	(81)
Realised profit on sale of investment properties		493	220
Bank interest receivable		63	98
Interest payable and similar charges	4	<u>(287)</u>	<u>(218)</u>
Profit on ordinary activities before taxation	3	224	19
Taxation	6	<u>(35)</u>	<u>(1)</u>
Retained profit for the year	16	189	18
Realised profits transferred from revaluation reserve		195	135
Shares repurchased, including expenses	14	<u>(87)</u>	<u>–</u>
Increase in profit and loss account for the year		297	153
Balance brought forward		<u>487</u>	<u>334</u>
Balance carried forward	15	<u><u>784</u></u>	<u><u>487</u></u>

The operating loss for the year arises from the group's continuing operations.

Statement of Total Recognised Gains and Losses

For the year ended 30 April 2002

	2002 £'000	2001 £'000
Profit for the financial year	189	18
Unrealised surplus on revaluation of investment properties	2,149	2,770
Total recognised gains and losses relating to year	<u>2,338</u>	<u>2,788</u>

Note of historical cost profits and losses

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	225	19
Historical cost depreciation charge	(215)	(180)
Realisation of property revaluation gains of previous periods	218	175
Historical cost profit for the year before taxation	<u>228</u>	<u>14</u>
Historical cost profit for the year after taxation	<u>193</u>	<u>13</u>

Balance Sheets

30 April 2002

<i>Notes</i>	2002 Group £'000	2001 Group £'000	2002 Company £'000	2001 Company £'000
Fixed assets				
Intangible assets	7 (717)	(931)	–	–
Tangible assets	8 15,876	12,174	15,876	12,174
Investments:				
Shares in group companies	9 –	–	9,152	9,152
Other investment	10 433	433	433	433
	15,592	11,676	25,461	21,759
Current assets				
Debtors	11 87	52	87	52
Cash at bank and in hand	101	2,258	101	2,258
	188	2,310	188	2,310
Creditors: Amounts falling due within one year	12 (190)	(726)	(190)	(726)
	(2)	1,584	(2)	1,584
Net current (liabilities)/ assets				
Total assets less current liabilities	15,590	13,260	25,459	23,343
Creditors: Amounts falling due after more than one year	12 (4,185)	(4,106)	(13,338)	(13,258)
	11,405	9,154	12,121	10,085
Capital and reserves				
Called up share capital	14 2,412	2,440	2,412	2,440
Share premium account	15 3,041	3,041	3,041	3,041
Capital redemption reserve	15 28	–	28	–
Revaluation reserve	15 5,140	3,186	5,140	3,186
Profit and loss account	15 784	487	1,500	1,418
	11,405	9,154	12,121	10,085
Shareholders' funds				

Approved by the board on 19 June 2002

Robert Lo Chairman

Graeme Marshall Director

Cash Flow Statement

For the year ended 30 April 2002

	<i>Notes</i>	2002 £'000	2001 £'000
Operating loss		(45)	(81)
(Increase) /decrease in debtors		(35)	25
(Decrease)/increase in creditors		(77)	175
Amortisation		(191)	(49)
Net cash (absorbed by)/ flow from operating activities		(348)	70
Interest received		63	98
Interest paid		(299)	(198)
Returns on investments and servicing of finance		(236)	(100)
Taxation		–	(311)
Additions to investment properties		(2,534)	(466)
Sale of investment properties		1,474	630
Net cashflow from capital expenditure and financial investment		(1,060)	164
Acquisition of subsidiaries		(23)	(9,592)
Net cash acquired		–	6,346
Acquisitions and disposals		(23)	(3,246)
(Repurchase)/issue of ordinary share capital		(87)	850
New debt raised		790	9,267
Debt repaid		(1,193)	(4,721)
Net cash flow from financing		(490)	5,396
(Decrease)/increase in cash	18	(2,157)	1,973

Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention (modified to include the revaluation of investment properties) in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate those of Sovereign Reversions plc and of its subsidiary undertakings. Subsidiaries acquired during the year are consolidated using the acquisition method. Their results are incorporated from the date control passes. All financial statements are made up to 30 April 2002.

Intangible assets

Where the cost of acquiring subsidiaries exceeds the fair value of the assets acquired, goodwill is recognized on consolidation, is capitalized and written off to the profit and loss account over the period over which, in the opinion of the directors, the goodwill is effective. Where the fair value of the assets acquired exceed the purchase consideration, negative goodwill is recognized on consolidation, is capitalized and is written back to the profit and loss account over an equivalent period.

Freehold investment properties

Investment properties, with the exception of vacant properties, are accounted for in accordance with SSAP 19, "Accounting for Investment Properties", which provides that these should not be subject to periodic depreciation charges (unless held on short lease), but should be shown at open market value. This is contrary to the Companies Act 1985, which states that, subject to any provision for depreciation or diminution in value, fixed assets are normally to be stated at purchase price or production cost.

The treatment of investment properties under the Companies Act would not in the opinion of the directors, give a true and fair view as these assets are not held for consumption in the business but as investments, the disposal of which would not materially affect any manufacturing or trading 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 investment properties.

Vacant investment properties are included by the directors at their estimated net realisable value (being the expected sales value less a provision for costs of disposal) as they are in the process of being disposed of. This is not in accordance with SSAP 19 which requires that investment properties should be shown at open market value or FRS 12 which requires that provisions are only recognised when an entity has a present obligation as a result of a past event. It is also contrary to the Companies Act 1985, which states that fixed assets are to be stated at purchase price or production cost less provision for depreciation or diminution in value. The directors believe that valuing vacant properties at net realisable value is the most appropriate treatment for accounting purposes.

Investment properties are included in the financial statements once an irrevocable purchase contract has been entered into. Sales of investment properties are recorded once an irrevocable sale contract has been entered into, provided that sale has been legally completed by the date on which the relevant financial statements are approved by the directors.

Details of the carrying value and historic cost information for investment properties are disclosed in Note 8.

Deferred taxation

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where contractual transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profit and its results as stated in the financial statements.

Deferred tax is measured at average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover represents rental income, exclusive of Value Added Tax.

Notes to the Financial Statements

For the year ended 30 April 2002

1 Turnover

The company's turnover was derived from its principal activity within the United Kingdom.

2 Administrative expenses	2002	2001
	£'000	£'000
Total expenses	259	135
Less: goodwill amortised	(191)	(49)
	<u>68</u>	<u>86</u>

3 Profit on ordinary activities before taxation

2002	2001
£'000	£'000

This is stated after charging:

Auditors' remuneration:

Audit services	14	11
Non audit services	12	7

	<u>26</u>	<u>18</u>
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4 Interest payable and similar charges

2002	2001
£'000	£'000

Interest payable on bank and building society loans	286	114
Fees	1	104
	<u>287</u>	<u>218</u>

5 Remuneration of directors

2002	2001
£'000	£'000

The emoluments of directors of the company were:

Fees	7	7
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	<u>7</u>	<u>7</u>
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The company had no other employees during the year.

6 Taxation

2002	2001
£'000	£'000

Current tax		
UK corporation tax on profits of the period	35	1

	<u>35</u>	<u>1</u>
--	-----------	----------

Factors affecting tax charge for period:

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

Notes to the Financial Statements

For the year ended 30 April 2002

6 Taxation (<i>continued</i>)	2002	2001
	£'000	£'000
Profit on ordinary activities before tax	225	19
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	68	6
Effects of:		
Amortisation not allowable	(65)	(18)
Profit on disposal of properties	(153)	(66)
Capital gains chargeable for the year	203	96
Expenses allowed in the tax computation and capitalised in accounts	–	(30)
Tax losses carried forward		12
Effect of marginal rates	(18)	–
Current tax charge for period	<u>35</u>	<u>Nil</u>

The company does not recognize provisions for deferred tax on gains arising on the revaluation of properties to their market value unless there is a binding agreement to sell the asset. At 30 April 2002 there were no such agreements.

7 Intangible assets	£'000
– Group	
Cost:	
1 May 2001	(980)
Adjustments	23
30 April 2002	<u>(957)</u>
Amortisation:	
1 May 2001	49
Written back during the year	191
30 April 2002	<u>240</u>
Net book value 30 April 2002	<u>(717)</u>
Net book value 30 April 2001	<u>(931)</u>

Intangible assets represent the negative goodwill arising on consolidation following the acquisition of the companies referred to in Note 9. Negative goodwill is being amortised over five years from the date of acquisition.

In accordance with FRS7, in the period following the acquisition of the companies the directors have reviewed the fair value of the assets acquired. As a result of this review an adjustment to the value of goodwill of £23,000 has been recognized.

Notes to the Financial Statements

For the year ended 30 April 2002

8 Tangible assets

– Group and company	2002	2001
	£'000	£'000
Investment properties		
Valuation		
1 May 2001	12,174	2,290
Additions	2,534	466
Acquired from subsidiaries		7,058
Disposals	(981)	(410)
Revaluation	2,149	2,770
	15,876	12,174
30 April 2002	15,876	12,174

Reversionary interests acquired prior to 30 April 2001 were valued at their open market value at 30 April 2002 in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual by Allsop & Co, the valuation amounting to £11,956,228.

Reversionary interests acquired during the year were valued by the directors at their acquisition cost of £2,543,000.

Vacant properties were valued by the directors as at 30 April 2002 on a net realisable value basis and are included in these financial statements at £1,096,000 (2001: £544,000). This is net of estimated disposal expenses of £ 54,000 (2001: £28,000).

Two tenanted properties were valued by the directors as at 30 April 2002 on the basis of their tenanted value and included in the financial statements at £171,000. A further tenanted property was valued by the directors as at 30 April 2002 on the basis of the expected sale value of this property and is included in the financial statements at £110,000.

No depreciation is provided in respect of freehold investment properties.

The historic cost of the company's properties was £10,745,029 (2001: £8,988,011). On an historic cost basis the properties would have been depreciated and stated at net book value of £10,238,019 (2001: £8,674,643).

9 Shares in group companies

– Company	2002	2001
	£'000	£'000
Cost		
1 May 2001	12,192	12,192
Adjustment (see note 7)	23	–
	12,215	12,192
Provision		
1 May 2001	(3,040)	(3,040)
Charge in year	(23)	–
	(3,063)	(3,040)
Cost, net of provision	9,152	9,152

Notes to the Financial Statements

For the year ended 30 April 2002

The company's subsidiaries are:-

Company	Class of share
Reversionary Gains I Ltd	Ordinary
Reversionary Gains II Ltd	Ordinary
Reversionary Gains III Ltd	Ordinary
Reversionary Gains IV Ltd	Ordinary
Unchained Reversions Ltd	Ordinary

The companies listed above are all incorporated in Scotland and are 100% owned. They were all property investment companies until 30 April 2001, when they became dormant. All have been included in the consolidated accounts.

10 Other investment

– Group and company

The company owns 373,862 ordinary shares in Capital Reversions PLC, representing 29.5% of that company's issued shares. Capital Reversions PLC invests in residential property subject to life tenancies. The latest available accounts for this company are for the year to 31 March 2001. At this date the company had net assets of £1,936,000. The cost of the investment at 1 May 2001 and 30 April 2002 was £433,536.

The investment is not treated as an associated undertaking as the group is not in a position to exercise significant influence over the management of that company.

11 Debtors

	2002	2001
	£'000	£'000
	Group and Company	Group and Company
Due within one year:		
Prepayments and accrued income	87	52
	<u>87</u>	<u>52</u>
Amounts receivable after more than one year:		
Prepayments and accrued income	48	33
	<u>48</u>	<u>33</u>

12 Creditors

	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
	Group	Group	Company	Company
Amounts falling due within one year:				
Bank loans	–	482	–	482
Corporation tax	35	–	35	–
Accruals and deferred income	155	244	155	244
	<u>190</u>	<u>726</u>	<u>190</u>	<u>726</u>
Amounts falling due in more than one year:				
Bank loans	3,190	3,074	3,190	3,074
Building Society loan	995	1,032	995	1,032
Amounts owed to group undertakings	–	–	9,152	9,152
	<u>4,185</u>	<u>4,106</u>	<u>13,338</u>	<u>13,258</u>

Notes to the Financial Statements

For the year ended 30 April 2002

12 Creditors (<i>continued</i>)	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
	Group	Group	Company	Company
Amounts repayable by instalments:				
Due within one year	–	482	–	482
Due in more than one but not more than 2 years	–	–	–	–
Due in more than two years but not more than 5 years	690	–	690	–
Due in 5 years or more	3,495	4,106	3,495	4,106
	<u>4,185</u>	<u>4,588</u>	<u>4,185</u>	<u>4,588</u>
Included with current liabilities	–	(482)	–	(482)
	<u>4,185</u>	<u>4,106</u>	<u>4,185</u>	<u>4,106</u>

The bank loans comprise:

- a) a £2.5m fixed term loan repayable by 28 February 2010. Interest on this loan has been fixed until 11 October 2007 at a rate of 5.46% plus margin;
- b) a £2.5m revolving credit facility expiring on 28 February 2007, of which £691,000 was drawn at 30 April 2002.

The building society loan is repayable by 24 September 2009.

The loans are secured on the company's properties and bear interest at between 1.5% and 1.75% over LIBOR. The bank loans are also secured by a debenture dated 30 November 2000. Loans and interest are to be repaid from sale proceeds of the properties.

13 Financial instruments

The group's financial instruments at 30 April 2002 comprised cash and bank and building society loans. The main purpose of these financial instruments is to finance the group's acquisition of property and to enable the settlement of ongoing debts.

Short-term debtors and creditors have been omitted from the disclosures in this note.

The main risk arising from the Group's financial instruments is interest rate risk.

The fair value of the group's financial instruments is deemed to be equal to book value.

Interest rate risk profile:

The group finances its operations through shareholder equity, and loans from banks and building societies.

At 30 April 2002

	Total	Floating	Fixed	Non-
	£'000	rate	rate	interest
	£'000	£'000	£'000	bearing
Sterling	(4,084)	(1,685)	(2,500)	101
	<u>(4,084)</u>	<u>(1,685)</u>	<u>(2,500)</u>	<u>101</u>

The maturity profile of the financial liabilities is detailed in note 12 above.

Details of the interest rate payable on the fixed rate liability and number of years to maturity are shown in note 12 above.

The floating rate liabilities pay interest based on rates ruling in the London inter-bank market.

Notes to the Financial Statements

For the year ended 30 April 2002

14 Share capital	2002	2001
	£'000	£'000
Authorised:		
20,000,000 ordinary shares of 50p each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
Allotted, issued and fully paid:		
4,824,516 (2001:4,880,932) Ordinary shares of 50p each	2,412	2,440
	<u>2,412</u>	<u>2,440</u>

In April 2002 the company repurchased 56,416 shares with an aggregate nominal value of £28,208 at a price of £1.40 per share. The cost of the repurchase, including expenses, has been charged to the profit and loss account. The nominal value of the shares repurchased has been credited to capital redemption reserve fund.

	2002	2001
	No.	No.
Warrants in issue	976,519	976,519
	<u>976,519</u>	<u>976,519</u>

The warrants are convertible into ordinary shares on payment of £1.65 per share on or before 30 April 2009. Warrant holders are also entitled to receive further warrants in all shares issued prior to 30 April 2004 in the ratio of one warrant per five shares. The further warrants are convertible into ordinary shares on or before 30 April 2009 at 125% of the price at which such new shares are issued, subject to a minimum of £1.65 per share.

15 Reserves	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
1 May 2001	3,041	3,186	–	487
Profit for the year	–	–	–	189
Revaluations in year	–	2,149	–	–
Transfer of realised profits	–	(195)	–	195
Share repurchase	–	–	28	(87)
	<u>3,041</u>	<u>5,140</u>	<u>28</u>	<u>784</u>
30 April 2002	<u>3,041</u>	<u>5,140</u>	<u>28</u>	<u>784</u>

16 Reconciliation of movement in shareholders' funds	2002	2001
	£'000	£'000
Profit for the financial year	189	18
Unrealised revaluations in year	2,149	2,770
Shares (repurchased)/ issued during the year	(87)	3,446
	<u>2,251</u>	<u>6,234</u>
Net addition to shareholders' funds	2,251	6,234
Opening shareholders' funds	9,154	2,920
	<u>11,405</u>	<u>9,154</u>
Closing shareholders' funds	<u>11,405</u>	<u>9,154</u>

Notes to the Financial Statements

For the year ended 30 April 2002

17 Directors' interests in transactions

- a) The company is managed by Home Equity Limited. GCW Marshall and RA Pearce Gould are shareholders in, and directors of, Home Equity Limited. During the year Home Equity Limited charged fees for these services of £158,000 (2001: £58,000).
- b) The company also acquired a number of properties through Home & Capital Trust Limited in which GCW Marshall is a shareholder and of which GCW Marshall and RA Pearce Gould are directors. Fees payable to Home & Capital Trust Limited for these services amounted to £152,009 (2001: £10,000).
- c) Cambridge Corporate Consultants Limited is the company's corporate adviser. R A Pearce Gould is a shareholder in and a director of Cambridge Corporate Consultants Limited, which charged fees of £5,000 (2001: £50,000) for its services during the year.

All of the above payments are inclusive of VAT.

18 Analysis of net debt

	At 1 May 2001	Cash flow	At 30 April 2002
	£'000	£'000	£'000
Cash at bank and in hand	2,258	(2,157)	101
Loans repayable in one year	(482)	482	—
Loans repayable in more than one year	<u>(4,106)</u>	<u>(79)</u>	<u>(4,185)</u>
	<u>(2,330)</u>	<u>(1,754)</u>	<u>(4,084)</u>

19 Reconciliation of net cashflow to movement in net debt

	2002 £'000	2001 £'000
(Decrease) / increase in cash in the year	(2,157)	1,973
Cash inflow / (outflow) from increase in debt	<u>403</u>	<u>(4,546)</u>
Change in net debt resulting from cash flows	(1,754)	(2,573)
Opening net debt	<u>(2,330)</u>	<u>243</u>
Closing net debt	<u>(4,084)</u>	<u>(2,330)</u>

20 Profit and loss

The company has relied upon the exemption contained in the Companies Act 1985 section 230(3) not to present its own profit and loss account. The company made a loss of £24,186 for the year to 30 April 2002.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 31 Goldington Road, Bedford MK40 3LH on Wednesday 7 August 2002 at 10.30 a.m. for the following purpose:

1. To receive and adopt the financial statements for the year ended 30 April 2002 and the reports of the directors and auditors thereon.
2. To reappoint Baker Tilly, Chartered Accountants, as auditors until the conclusion of the next Annual General Meeting at which accounts are laid before the members and to authorise the directors to fix their remuneration.
3. To re-elect GCW Marshall as a director.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed as to Resolution 4 as an Ordinary Resolution and as to Resolution 5 as a Special Resolution.

Ordinary Resolution

4. That the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum nominal amount of £7,587,742 (being equal to the nominal amount of the authorised but unissued share capital of the Company at the date of the passing of this resolution) up to the expiry of the Annual General Meeting to be held in 2002 on which date this authority will expire unless previously renewed or varied provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in the pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolution

5. That subject to the passing of Resolution 4 above the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94) , pursuant to the authority conferred by Resolution 4 above as if Section 89(1) of the Act applied to such allotment with the following modifications:
 - a) that Section 89(1) of the Act will not apply to any allotments of shares for a non-cash consideration;
 - b) that Section 89(1) of the Act will not apply to those allotments of shares for cash that the Directors may determine providing that the total of such allotments is limited to a maximum of 2,500,000 shares between the date hereof and the next Annual General Meeting.

By order of the board
Badger Hakim Secretaries Limited

19 June 2002
Registered Office
10 Dover Street
London W1X 3PH

Notes:

1. A member entitled to vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy does not need to be a member of the company.
2. A form of proxy is provided with this notice. To be valid, proxies must be received at the company's registered office not less than 48 hours before the time fixed for the meeting.

Life Tenancy Reversions

The market for life tenancy reversions is typically provided by homeowners over 70, who sell their homes to an investor in exchange for a lifetime rent-free lease. These homeowners enjoy the security of being able to continue to live at home, rent – free, for the rest of their lives, and benefit from a cash lump sum, which can improve their quality of life significantly.

In consideration for providing a rent –free tenancy of uncertain duration, the investor is able to acquire residential property at a substantial discount to its vacant possession value. The investor typically acquires around £2 of property per £1 invested. Under this arrangement there is no requirement to collect rent and tenants are responsible for maintenance and insurance. As well as providing a low-risk exposure to the UK residential property market, there is a geared appreciation effect if the market should rise.

The investment return is provided by sale of the property at its full value at the end of the tenancy.

The social need

Investment in life tenancy reversions fulfils an established and growing social need. It benefits retired people who own their own homes but have few other assets, often relying entirely on a state pension for their income. The number of people in this category, and the pressures on them to find a source of income to improve their standard of living, have increased considerably in recent years.

- People are now living longer.
- The number of elderly people who own their own homes has increased.
- The average age of retirement has decreased. Involuntary early retirement has also become a factor.
- The state pension has not kept pace with inflation.
- The fall in dividend yields and interest rates over recent years has materially eroded income from savings.

To supplement their falling incomes, elderly homeowners have frequently had to sell their homes and move into retirement homes or warden-assisted flats, or move away to a lower cost area. However, most elderly people do not wish to sell their homes; they prefer to stay in the environment they are used to. Creating a life tenancy reversion provides a means for elderly homeowners to improve their financial position without having to move from their homes.

Ethical approach

The management of Sovereign is committed to high ethical standards in its dealings with the elderly. New life tenancy reversions will only be bought if they comply with the Code of Practice of Safe Home Income Plans. The manager also maintains a relationship with tenants through a programme of regular visits by experienced professionals employed by Home & Capital Trust Limited. This point of contact is frequently used by tenants as a valuable source of advice on problems connected with living in their homes as they grow older.

