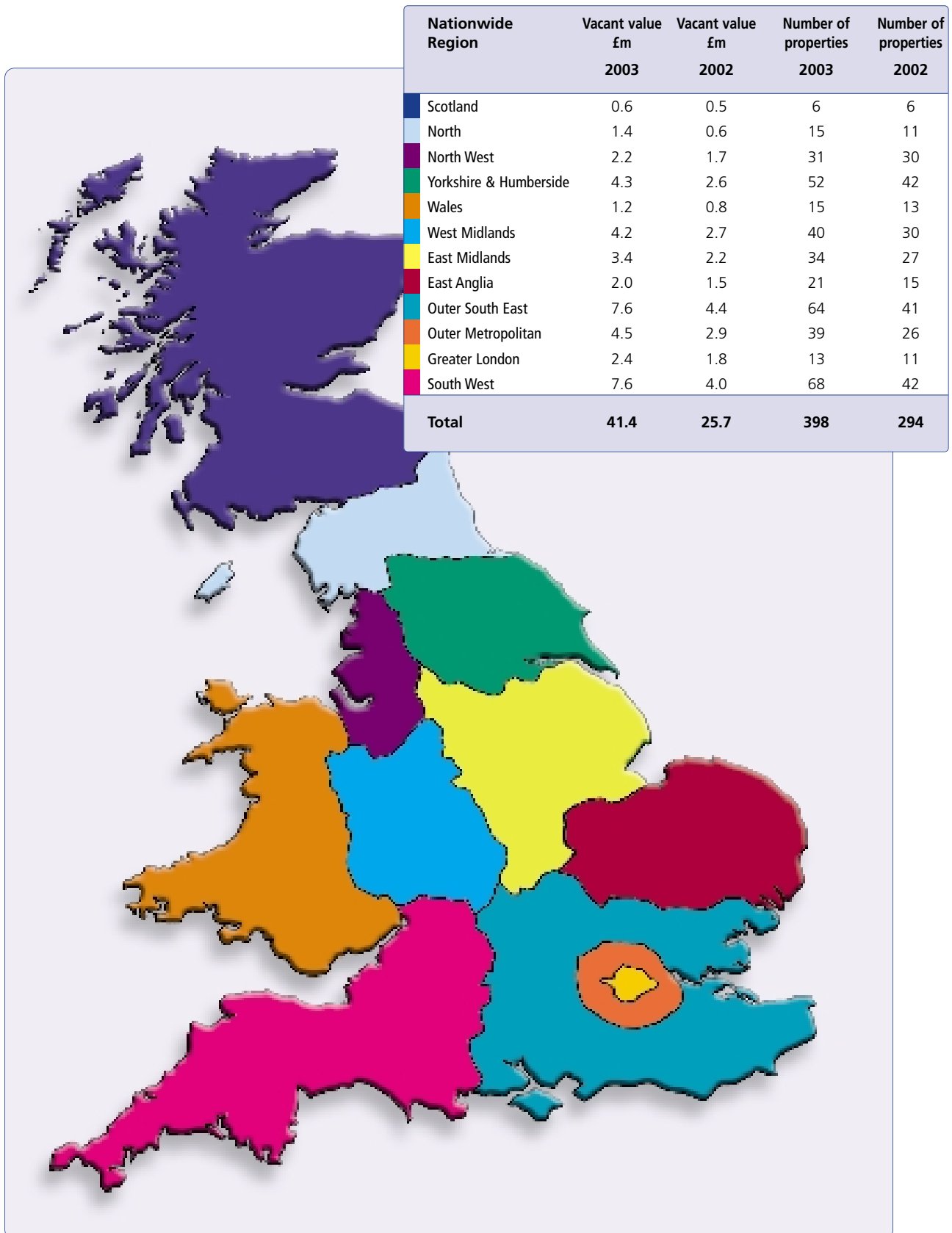


SOVEREIGN
REVERSIONS PLC

Life Tenancy Portfolio



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 1,500 properties under management whose vacant possession value exceeds £120 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 portfolios or similar companies to achieve an improved spread of risk and economies of scale.

Financial highlights

	30 April 1999	30 April 2000	30 April 2001	30 April 2002	30 April 2003
Net assets (£'000)	2,236	2,920	9,154	11,405	16,594
Net asset value per share					
Full (pence)	127.8	139.9	187.5	236.4	315.2
Diluted (pence)			183.8	224.4	291.5
Vacant possession value of life tenancies (£'000)	2,780	4,269	19,808	25,633	41,375
Embedded value per share (pence)	200.6	239.9	360.7	467.2	654.8
Profit after revaluation transfers and taxation (£'000)	65	171	153	384	669
Operating cash flow (£'000)	190	427	500	1,238	2,025
Per share (pence)	10.9	20.5	10.2	25.8	38.5
Dividend per share (pence)	–	–	–	–	2.5
Midmarket share price (pence)	–	125	120	170	230

To arrive at embedded value per share, the book value of the life tenancies is replaced by their vacant possession value.

Life Tenancy Reversions

Life tenancy reversions are typically provided to homeowners over 70, who sell part or all of 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 tax-free 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. It typically acquires around £2 of property per £1 invested. The investor has a relatively low involvement as landlord. 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, appreciation is geared if the market should rise.

The investment return is provided by realising the full value of the property 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 limited savings. Elderly people's income normally fails to achieve the same rate of growth as their living expenses. The pressures on these people 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, as has the proportion of their wealth tied up in their home.
- The state pension has not kept pace with inflation. The value of defined contribution pensions has reduced considerably with the fall in global stock markets.
- The fall in dividend yields and interest rates over recent years has materially eroded income from savings. The fall in stock markets has reduced the capital value of savings significantly.

Historically, to supplement their falling incomes, elderly homeowners 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. The flexibility of the home reversion product allows the vendors to raise money from their homes in stages to suit their needs and maximise the value received.

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 the property manager. 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.

Chairman's Statement

In the last year our net assets per share grew by 30% from 224.4 pence to 291.5 pence (diluted). We once again benefited from a strong property market, with the Nationwide UK Property Index increasing by 22% last year. The price at which we acquire life tenancies, the product mix and level of gearing are also material components of our performance. Over the four years since Home Equity became our managers, we have achieved compound annual growth in net assets per share of 23%.

Cash flow has continued to develop strongly; we generated cash from property sales of £2.34m, which, after net operating expenses of £319,000, produced an operating cash flow of in excess of £2m. This equates to 38.5 pence per share; last year we generated an operating cash flow of £1.24m (25.7 pence per share).

Our record of increasing cash flows over the past four years is the direct result of our investment strategy. Our policy has been to acquire a mix of mature portfolios and new life tenancies. The size of our portfolio and the maturity of our tenant profile have been critical factors in our cash generation.

The consistent strength of our cash generation has led us to review our policy on dividends. Your board has decided to pay a dividend of 2.5 pence per share in August 2003 and intends dividends to be paid on a regular basis in future. The dividend is covered five times by the increase in profits available for distribution.

Our share price has increased by 35% over the past year to 230 pence. Our share price has tended to reflect public information in the marketplace, so the current price does not yet fully reflect our performance over the last year. We continue to be one of the most liquid shares dealt on OFEX. We also raised just under £1m from two issues of new shares during the year. I would like to welcome the new shareholders who have joined us as a result of the share issues and purchases in the market.

Sovereign is still the only vehicle enabling private investors to participate in a broad-based portfolio of life tenancies through shares which can be traded. This has established our unique position in the equity release market, which is widely expected to continue to grow rapidly. We have an exceptional management team, with the skills and expertise to respond swiftly to new opportunities emerging as a result of market developments.

Robert Lo

Chairman

16 June 2003

Officers and Advisers

Directors

Robert Lo (Chairman)

Robert Lo, 51, 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, 50, 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, 51, 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 private companies.

Company information

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

Registered office

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

Web site

www.sovereign-reversions.co.uk

Auditors

Baker Tilly

Bankers

Bank of Scotland
Nationwide Building Society

Stockbrokers

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

Corporate advisers

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

Registrars

Northern Registrars Limited
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield, HD8 0LA
Tel: 01484 600900

Manager's Report

Operating performance

Profitability

Our business is to acquire properties at a substantial discount in return for granting life-long rent-free leases. We make our financial return on our investments by realising the full value of the vacant properties at the end of their tenancies. The table below shows the operating result from this activity over the last five years. While the 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.

We consider that the results of our investment activity and our underlying growth trend are more clearly represented in the table below:

	1999 £'000	2000 £'000	2001 £'000	2002 £'000	2003 £'000
Sale of investment properties:					
Realised profit	(3)	49	220	493	640
Revaluation released	132	183	135	195	858
Profit on original cost	129	232	355	688	1,498
Rental income	13	6	5	23	25
Administrative expenses	(89)	(80)	(135)	(259)	(344)
Operating profit before finance costs and taxation	53	158	225	452	1,179

Administrative expenses

	2002 £'000	2003 £'000
Management fees	136	170
Property expenses	21	25
Directors' fees	6	30
Audit fees	12	14
Other professional fees	33	28
OFEX costs	10	14
Other items	5	13
Irrecoverable VAT	36	50
Total expenses	259	344
Less: goodwill amortisation	(191)	(191)
Per Profit and Loss Account	68	153

The increase in directors' fees and the basis for management fees are explained in the Directors' Report.

Taxation

As explained in the Directors' Report, we are in discussions with the Inland Revenue as to whether we should be taxed as an investment company or a trading company. The consequences for the company of our being treated as a trading company would be that we would lose our entitlement to indexation relief on all properties acquired directly by Sovereign from the original date of

Manager's Report

acquisition, and on the Reversionary Gains properties from the date that the beneficial ownership of these properties was transferred to Sovereign.

While we do not agree with the Inland Revenue's interpretation of the tax status of our investment business, the directors have considered it prudent to provide for current taxation on the basis that there is no indexation relief on sales made this year. Furthermore, an additional provision of £25,000 has been made to allow for the potential loss of prior year indexation relief.

The tax provision is well in excess of the profit before taxation shown in the statutory accounts. The reason for the apparently high percentage tax charge is that the transfer from the revaluation reserve, being part of the profit on sale of properties, is also subject to tax. When this is taken into account, the pre-tax profit increases to £889,000, of which the tax provision relating to the current year is £192,000, or 21.6% of profits.

Cash flow

The table below shows the pattern of cash generation from our investments. These cash flows are deployed in meeting finance costs, taxation, further investments and payments to shareholders (dividends or share repurchases).

	1999 £'000	2000 £'000	2001 £'000	2002 £'000	2003 £'000
Proceeds from sale of properties	266	501	630	1,474	2,344
Rental income	13	6	5	23	25
Administrative expenses	(89)	(80)	(135)	(259)	(344)
Net operating cash flow	190	427	500	1,238	2,025

The value of vacant properties on the market at the year end exceeds our anticipated operating and finance costs for the coming year.

Investments

Property portfolio

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

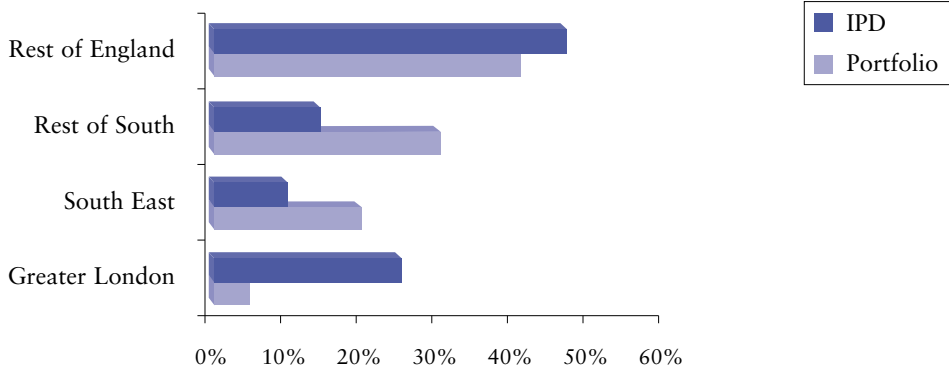
	At 30 April 2002	Purchases	End of tenancies	Sales	At 30 April 2003
Life tenancies	294	127	(23)	—	398
Assured tenancies	3	—	—	—	3
Properties for sale	15	—	23	(25)	13
Total	312	127	—	(25)	414

During the year we invested £6.2m in life tenancies. Of this amount, £4.1m was invested in new reversions through Home & Capital Trust Limited and £2.1m in portfolios or further shares of existing reversions. 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.

Our portfolio of life tenancies at 30 April 2003 is shown on the inside front cover. Our policy in acquiring new reversions is to achieve geographical diversification and generally to avoid Greater London, in view of the volatility of this particular market. However, where we are acquiring portfolios, the attraction of the age profile of the tenants may override geographical considerations. The Investment Property Databank ("IPD") compiles information from investors in residential property across the UK; against this benchmark we are substantially below the IPD weighting in Greater London and well above it in the South East and Rest of South (which include counties in the South Midlands and East Anglia). We are slightly below the IPD weighting in the North Midlands and North of England.

Manager's Report

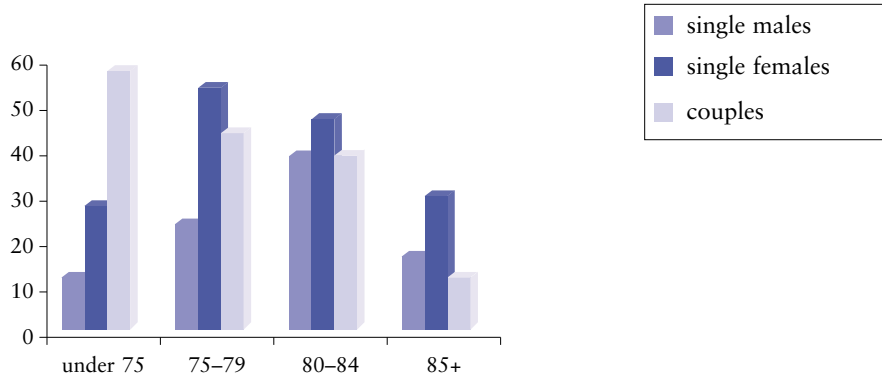
Portfolio weighting compared with IPD



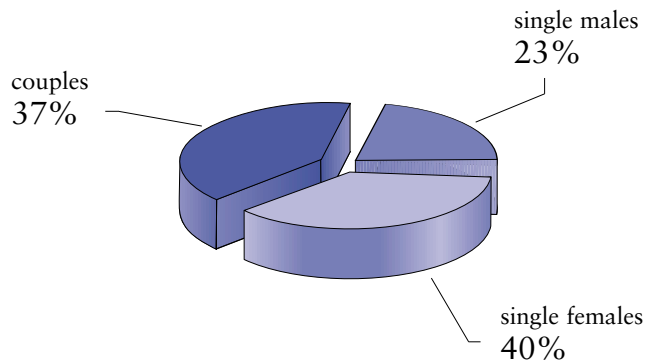
Tenancy profile

45% of our tenants are over 80. This will form the basis for steady cash flows for a number of years. We have sought to balance the maturity of our tenancy profile by purchasing a number of new reversions with younger tenants.

Tenancy profile by age



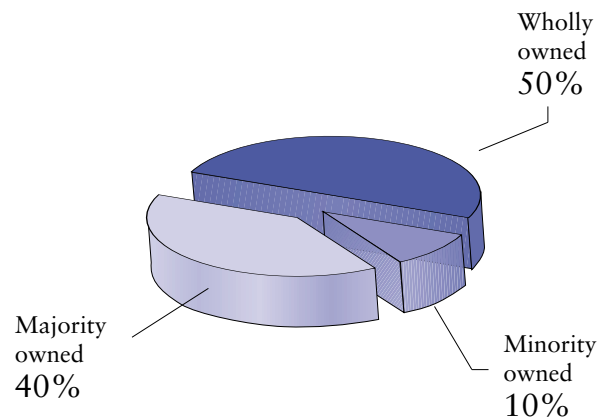
Occupancy



Manager's Report

We commented last year that equity release plans are steadily becoming less of a "last resort" option and more of a financial planning tool for the elderly. Increasingly, prospective vendor/tenants are defining their cash requirement, which then determines the proportion of the property they sell. Only 13 of the 99 new reversions acquired were 100% sales. There is also a growing trend for occupants to sell a smaller proportion of their property, in anticipation of selling further parts of their property in the future. We would be the logical buyer of these further tranches. We like to encourage tenants to retain an equity interest in their homes and thus be in partnership with us as owners.

Ownership



Only two years ago, 74% of our properties were wholly owned.

Properties for sale

At 30 April 2003 we had 13 properties for sale. Five of these properties have either been sold, or sales have been agreed. We are continuing to find that there is active interest in our properties offered for sale.

Valuation

Life tenancies acquired prior to 31 October 2002 have been independently valued by Allsop & Co as at 30 April 2003. One-third of these properties were inspected. The average increase in the properties inspected was 23.6%, which was above the average rate of index growth. Where properties were not inspected, the average increase in the Nationwide and Halifax regional indices was applied.

The life tenancy investments are carried in the company's accounts at an average of 56.8% 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 majority of the capital gain from our investments is only reflected in asset values when the tenancies end.

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 2002, showed a net asset value of £2,519,000, equivalent to around 199 pence per share compared to an average cost of 116 pence per share. We are carrying this investment at cost. We would expect this investment to have increased in value since its last accounts were prepared.

Manager's Report

Financing

New equity

Since we became managers to the company in 1999, the board has adopted a strategy of expanding the size of the company's portfolio. We have always believed that such expansion should be financed by a combination of new equity and gearing. Often substantial finance may be required at relatively short notice, for example in the case for competitive bids for a large portfolio. We have therefore sought annually from shareholders a mandate for the board to issue shares for cash and disapply pre-emption rights. We made use of this mandate immediately prior to last year's Annual General Meeting by issuing 135,000 shares to a Swiss fund manager at a price of 200 pence per share. This assisted us in a portfolio purchase. Following the renewal of this mandate at the last Annual General Meeting, we have again made use of it to issue 306,000 to James Sharp & Co for its clients at a price of 230 pence per share. The new equity has permitted us to continue our investment programme while negotiating further bank funding. On each occasion, the issue has been at the current market price.

Your board will be proposing a renewal of this mandate at the forthcoming Annual General Meeting.

Bank funding

Our principal lender, Bank of Scotland, has agreed to increase our bank facilities since the year end; some of the lending terms have also been improved. Following this increase, we will have available facilities of £12m, of which £8.5m had been drawn down at 30 April 2003. The recent asset revaluation has left us scope to apply for a further facility should the situation require.

Since the year end we have agreed to a nil-cost option arrangement, which will hedge our exposure to an increase in interest rates on £2.5m of long-term debt. The interest rate on £5m of our indebtedness is now fixed or hedged. Details of our current loan arrangements and financial instruments are set out in Notes 13 and 14 to the financial statements.

The availability of undrawn facilities and the flexibility of our financing arrangements put us in a good position to acquire further portfolios or other opportunities as they become available.

Graeme Marshall

Chief Executive
Home Equity Limited
16 June 2003

Directors' Report

The directors submit their report and the group financial statements of Sovereign Reversions plc for the year ended 30 April 2003.

Principal activities

During the year the group has continued to invest in residential property subject to life tenancies. The group's activities and prospects are reviewed in the Chairman's Statement on page 3 and the Manager's Report on pages 5 to 9.

Results for the year

The results for the year are as set out on page 14. A dividend of 2.5 pence per share will be paid on 4 August 2003 to all shareholders registered on 14 July 2003.

Directors

The following directors have held office since 1 May 2002:

RA Lo Chairman

GCW Marshall

RA Pearce Gould

RA Pearce Gould retires and, being eligible, offers himself for re-election.

Directors' remuneration

As announced in August 2002, directors' remuneration has been increased to £10,000 per director with effect from 1 May 2002. The remuneration payable to the chairman has been £6,000 p.a. for the previous four years. Home Equity Limited has provided the services of two directors free of charge since their appointment in March 1999 until the increase noted above was implemented.

Directors' interests in shares and warrants

Directors' interests in the shares and warrants of the company, including family interests, were as follows:

	Ordinary shares of 50p each		Warrants	
	2003	2002	2003	2002
RA Lo	37,500	37,500	—	—
GCW Marshall				
— beneficial	1,047,576	1,099,576	703,545	645,264
— non-beneficial	75,360	75,360		
RA Pearce Gould				
— beneficial	59,835	61,273	223,216	204,726
— non-beneficial	11,438	10,000	—	—

The warrants are convertible into ordinary shares on or before 30 April 2009 as follows:

	165 pence	250 pence	287.5 pence
GCW Marshall	645,264	17,841	40,440
RA Pearce Gould	204,726	5,660	12,830

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 165 pence per share.

Directors' Report

Substantial interests

As at 16 June 2003 the company is aware that the following shareholders (other than directors) held or were beneficially interested in ordinary shares amounting to 3% or more of the issued ordinary share capital of the company.

	No. of shares	% of issued capital
Ellis & Sons Third Amalgamated Properties Limited	613,391	11.65%
First China Group Limited	375,953	7.14%

Tax status

The company is in discussion with the Inland Revenue about its tax status. Although for accounting purposes the company is an investment company, there is a possibility that for tax purposes it may be treated as a trading company. In the event that it is regarded as a trading company for tax purposes then:

- On the one hand, it will not be entitled to indexation relief on capital gains.
- On the other hand, the shares in the company will be treated as Business Assets for taper relief purposes in respect to shareholders on a corresponding basis.

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:

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

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.

Directors' Report

Management and administration

Home Equity Limited acts as the company's manager under an agreement dated 20 May 1999. The agreement is terminable at twelve months' notice. As announced at last year's Annual General Meeting, the company's management contract was modified with effect from 1 May 2002 to simplify the fee structure and reflect the fact that borrowings have become an integral part of its investment strategy. Under the new agreement, Home Equity Limited receives monthly a corporate management fee of 0.0625% based on total assets less trade creditors and an administration fee of £2,083.33 (both plus VAT). The administration fee is increased annually by the percentage increase in the Retail Price Index over the previous twelve months. Home Equity Limited pays property management fees to Home & Capital Trust Limited, a related company, to which it has subcontracted 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. At both 30 April 2003 and 30 April 2002 no amounts were due to suppliers.

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

GCW Marshall

Director

16 June 2003

Independent Auditors' Report to the Members of Sovereign Reversions plc

We have audited the financial statements on pages 14 to 27.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and 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 is 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, Financial Highlights and the Manager's 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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 2003 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
16 June 2003

Consolidated Profit and Loss Account FOR THE YEAR ENDED 30 APRIL 2003

	Notes	2003 £'000	2002 £'000
Turnover	1	25	23
Administrative expenses	2	(153)	(68)
Operating loss		(128)	(45)
Realised profit on sale of investment properties		640	493
Bank interest receivable		8	63
Interest payable and similar charges	4	(490)	(287)
Profit on ordinary activities before taxation	3	30	224
Taxation	6	(219)	(35)
(Loss)/profit for the year	17	(189)	189
Realised profits transferred from revaluation reserve		858	195
Profit after revaluation transfers and taxation		669	384
Dividend	7	(132)	—
Shares repurchased, including expenses		—	(87)
Increase in profit and loss account for the year		537	297
Balance brought forward		784	487
Balance carried forward	16	1,321	784

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

Balance Sheet

AS AT 30 APRIL 2003

	Notes	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Fixed assets					
Intangible assets	8	(526)	(717)	—	—
Tangible assets	9	24,997	15,876	24,997	15,876
Investments:					
Shares in group companies	10	—	—	9,152	9,152
Other investment	11	433	433	433	433
		24,904	15,592	34,582	25,461
Current assets					
Debtors	12	774	87	774	87
Cash at bank and in hand		18	101	18	101
		792	188	792	188
Creditors: Amounts falling due within one year	13	(569)	(190)	(569)	(190)
Net current assets/(liabilities)		223	(2)	223	(2)
Total assets less current liabilities		25,127	15,590	34,805	25,459
Creditors: Amounts falling due after more than one year	13	(8,533)	(4,185)	(17,685)	(13,338)
		16,594	11,405	17,120	12,121
Capital and reserves					
Called up share capital	15	2,633	2,412	2,633	2,412
Share premium account	16	3,777	3,041	3,777	3,041
Capital redemption reserve	16	28	28	28	28
Revaluation reserve	16	8,835	5,140	8,835	5,140
Profit and loss account	16	1,321	784	1,847	1,500
Shareholders' funds	17	16,594	11,405	17,120	12,121

Approved by the board on 16 June 2003

RA Lo
GCW Marshall

Chairman
Director

Cash Flow Statement

FOR THE YEAR ENDED 30 APRIL 2003

	Notes	2003 £'000	2002 £'000
Operating loss		(128)	(45)
Decrease/(increase) in debtors		11	(35)
Increase/(decrease) in creditors		43	(77)
Amortisation		(191)	(191)
Net cash absorbed by operating activities		(265)	(348)
Interest received		8	63
Interest paid		(484)	(299)
Returns on investments and servicing of finance		(476)	(236)
Taxation		(21)	—
Additions to investment properties		(6,272)	(2,534)
Sale of investment properties		2,344	1,474
Net cash flow from capital expenditure and financial investment		(3,928)	(1,060)
Acquisition of subsidiaries		—	(23)
Acquisitions and disposals		—	(23)
Issue/(repurchase) of ordinary share capital		259	(87)
New debt raised		5,982	790
Debt repaid		(1,634)	(1,193)
Net cash flow from financing		4,607	(490)
Decrease in cash	19	(83)	(2,157)

Statement of Total Recognised Gains and Losses FOR THE YEAR ENDED 30 APRIL 2003

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(189)	189
Unrealised surplus on revaluation of investment properties	4,553	2,149
Total recognised gains and losses relating to year	4,364	2,338

Note of Historical Cost Profits and Losses FOR THE YEAR ENDED 30 APRIL 2003

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	30	224
Historical cost depreciation charge	(323)	(215)
Realisation of property revaluation gains of previous periods	900	218
Historical cost profit for the year before taxation	607	227
Historical cost profit for the year after taxation	388	192

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 2003.

Intangible assets

Where the cost of acquiring subsidiaries exceeds the fair value of the assets acquired, goodwill is recognised on consolidation, is capitalised 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 recognised on consolidation, is capitalised 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 9.

Deferred taxation

Deferred tax is recognised 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 2003

1 Turnover

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

2 Administrative expenses

	2003 £'000	2002 £'000
Total expenses	344	259
Less: goodwill amortised	(191)	(191)
	153	68

3 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
This is stated after charging:		
Auditors' remuneration:		
Audit services	14	14
Non-audit services	7	12
	21	26

4 Interest payable and similar charges

	2003 £'000	2002 £'000
Interest payable on bank and building society loans	454	286
Fees	36	1
	490	287

5 Remuneration of directors

	2003 £'000	2002 £'000
The emoluments of directors of the company were:		
Fees	30	7
	30	7

The company had no other employees during the year.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 APRIL 2003

6 Taxation

	2003 £'000	2002 £'000
Current tax		
UK corporation tax on profits of the year	208	35
Adjustments in respect of previous periods	11	—
	<u>219</u>	<u>35</u>
	2003 £'000	2002 £'000
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:		
Profit on ordinary activities before tax	30	224
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	9	68
Effects of:		
Amortisation not allowable	(57)	(65)
Profit on disposal of properties	(192)	(153)
Capital gains chargeable for the year	457	203
Expenses allowed in the tax computation and capitalised in accounts	11	—
Effect of marginal rates	(20)	(18)
Current tax charge for period	<u>208</u>	<u>35</u>

The company provides for deferred tax on gains arising on the revaluation of properties to their market value only where there is a binding agreement to sell the asset. At 30 April 2003 there were no such agreements.

At 30 April 2003 the amount of deferred tax unprovided on the surplus on revaluation of fixed assets is £2,647,967.

7 Dividends

	2003 £'000	2002 £'000
Dividend: 2.5 pence per share (2002: Nil)	<u>132</u>	<u>—</u>

Notes to the Financial Statements FOR THE YEAR ENDED 30 APRIL 2003

8 Intangible assets

— Group

	Cost £'000	Amortisation £'000	Net book value £'000
1 May 2002	(957)	240	(717)
Written back during the year	—	191	191
30 April 2003	(957)	431	(526)

Intangible assets represent the negative goodwill arising on consolidation following the acquisition of the companies referred to in Note 10. Negative goodwill is being amortised over five years from the date of acquisition.

9 Tangible assets

— Group and company

Investment properties

	2003 £'000	2002 £'000
Valuation		
1 May 2002	15,876	12,174
Additions	6,272	2,534
Disposals	(1,704)	(981)
Revaluation	4,553	2,149
30 April 2003	24,997	15,876

Reversionary interests acquired prior to 31 October 2002 were valued at their open market value at 30 April 2003 in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual by Allsop & Co, the valuation amounting to £21,715,638.

Reversionary interests acquired since 1 November 2002 were valued by the directors at their acquisition cost of £1,776,733.

Vacant properties were valued by the directors as at 30 April 2003 on a net realisable value basis and are included in these financial statements at £1,187,500 (2002: £1,095,728). This is net of estimated disposal expenses of £60,000 (2002: £54,000).

Two tenanted properties were valued by the directors as at 30 April 2003 on the basis of their tenanted value and included in the financial statements at £207,000. A further tenanted property was valued by the directors as at 30 April 2003 on the basis of the expected sale value of this property and 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 £16,170,819 (2002: £10,745,029). On a historic cost basis, the properties would have been depreciated and stated at net book value of £15,381,577 (2002: £10,238,019).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 APRIL 2003

10 Shares in group companies

— Company

	2003 £'000	2002 £'000
Cost		
1 May 2002	12,215	12,192
Adjustment	—	23
30 April 2003	12,215	12,215
Provision		
1 May 2002	(3,063)	(3,040)
Charge in year	—	(23)
30 April 2003	(3,063)	(3,063)
Net book value at 30 April	9,152	9,152

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.

11 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 accounts for this company made available to us are for the year to 31 March 2002. At this date the company had net assets of £2,519,010. The cost of the investment at 1 May 2002 and 30 April 2003 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 APRIL 2003

12 Debtors

— Group and company

	2003 £'000	2002 £'000
Other debtors	69	56
Called up share capital not paid	698	—
Prepayments	7	31
	774	87

13 Creditors

	2003 £'000 Group	2002 £'000 Group	2003 £'000 Company	2002 £'000 Company
Amounts falling due within one year				
Proposed dividend	132	—	132	—
Corporation tax	233	35	233	35
Accruals and deferred income	204	155	204	155
	569	190	569	190
Amounts falling due in more than one year				
Secured loans	8,533	4,185	8,533	4,186
Amounts owed to group undertakings	—	—	9,152	9,152
	8,533	4,185	17,685	13,338
Amounts repayable by instalments.				
Due within one year	—	—	—	—
Due in more than one but not more than 2 years	375	—	375	—
Due in more than two years but not more than 5 years	5,856	690	3,356	690
Due in 5 years or more	2,302	3,495	13,954	3,495
	8,533	4,185	17,685	4,185

Notes to the Financial Statements FOR THE YEAR ENDED 30 APRIL 2003

13 Creditors continued

The loans, one of which has been reorganised since the year end, comprise:

- a) a £5m fixed term loan repayable by 30 May 2011, of which £2.5m had been drawn at the 30 April 2003. Interest on £2.5m of this loan has been fixed until 11 October 2007 at a rate of 5.46% plus margin;
- b) a £5m revolving credit facility expiring on 30 May 2006, of which £4.48m had been drawn at 30 April 2003;
- c) a £2m loan facility, repayable by 28 February 2010, of which £1.55m had been drawn at 30 April 2003.

Since the year end the company has entered into a hedging agreement with HBOS to the effect that the interest rate on £2.5m of borrowings is capped at 5.48% plus a margin of 1.5%–2% until 30 May 2008, but the interest rate paid shall not be less than 3.5% plus a margin of 1.5%–2%.

For amounts not covered by the above agreement interest is payable as follows:

Term loan:	1.5% over LIBOR
Revolving credit facility:	1.5%–2% over LIBOR.

The company will also bear agreed costs of the lender in complying with liquidity and other regulatory requirements.

Loan facility: the aggregate of LIBOR, a margin of 1.5%–1.75% and a rate calculated on additional costs incurred by the lender in complying with liquidity and other regulatory requirements.

The loans are secured by legal or equitable charges over the company's properties and assignment of realisation proceeds.

14 Financial instruments

The group's financial instruments at 30 April 2003 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 2003

	Total £'000	Floating rate £'000	Fixed rate £'000
Sterling	(8,515)	(6,015)	(2,500)
At 30 April 2002			
Sterling	(4,084)	(1,584)	(2,500)

The maturity profile of the financial liabilities is detailed in note 13 above.

Details of the interest rate payable on the fixed rate liability and number of years to maturity are shown in note 13 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 2003

15 Share capital

	2003 £'000	2002 £'000
Authorised:		
20,000,000 ordinary shares of 50p each	10,000	10,000
Allotted, issued and fully paid:		
5,265,516 (4,824,516) Ordinary shares of 50p each	2,633	2,412

The company issued 135,000 shares at 200 pence per share in August 2002 and 306,000 shares at 230 pence per share in April 2003.

The company has the following warrants in issue:

		Exercise Price
At 1 May 2002	976,519	165 pence
Issued in August 2002	26,990	250 pence
Issued in April 2003	61,186	287.5 pence
At 30 April 2003	1,064,695	

The warrants are convertible into ordinary shares 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 165 pence per share.

16 Reserves

	Group & company Share premium account £'000	Group & company Capital redemption reserve £'000	Group & company Revaluation reserve £'000	Group Profit and loss account £'000	Company Profit and loss account £'000
1 May 2002	3,041	28	5,140	784	1,500
Loss for the year	—	—	—	(189)	(379)
Revaluations in year	—	—	4,553	—	—
Transfer of realised profits	—	—	(858)	858	858
Dividend	—	—	—	(132)	(132)
Premium on shares issued	736	—	—	—	—
30 April 2003	3,777	28	8,835	1,321	1,847

Notes to the Financial Statements

FOR THE YEAR ENDED 30 APRIL 2003

17 Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(189)	189
Dividend	(132)	—
Unrealised revaluations in year	4,553	2,149
Shares issued /(repurchased) during the year	957	(87)
Net addition to shareholders' funds	5,189	2,251
Opening shareholders' funds	11,405	9,154
Closing shareholders' funds	16,594	11,405

18 Directors' interests in transactions

- 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 £170,000 (2002: £158,000). Directors' fees of £10,000 payable to each of GCW Marshall and RA Pearce Gould were also paid to Home Equity Limited.
- The company also acquired and sold 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 £317,000 (2002: £152,000).
- Cambridge Corporate Consultants Limited is the company's corporate adviser. RA Pearce Gould is a shareholder in and a director of Cambridge Corporate Consultants Limited, which charged fees of £20,000 (2002: £5,000) for its services during the year.

All of the above arrangements were on a normal commercial basis and at arm's length. Payments are inclusive of VAT.

19 Analysis of net debt

	At 1 May 2002 £'000	Cash flow £'000	At 30 April 2003 £'000
Cash at bank and in hand	101	(83)	18
Loans repayable in more than one year	(4,185)	(4,348)	(8,533)
	(4,084)	(4,431)	(8,515)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 APRIL 2003

20 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Decrease in cash in the year	(83)	(2,157)
Cash (outflow)/inflow from increase in debt	(4,348)	403
Change in net debt resulting from cash flows	(4,431)	(1,754)
Opening net debt	(4,084)	(2,330)
Closing net debt	(8,515)	(4,084)

21 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 after tax of £380,835 for the year to 30 April 2003 (2002: loss of £24,186).

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 Thursday 4 September 2003 at 2.30 p.m. for the following purposes:

1. To receive and adopt the financial statements for the year ended 30 April 2003 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 RA Pearce Gould 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 £7,367,242 (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 2004 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 1,500,000 shares between the date hereof and the next Annual General Meeting.

By order of the board

Badger Hakim Secretaries Limited

16 June 2003

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.

