

Grange Management (Southern) Limited

Financial Statements

2007/08

Growing together

Grange

**GRANGE MANAGEMENT (SOUTHERN)
LIMITED**

**Report of the Board
and
Financial Statements
for the year ended 31 March 2008**

Grange

INDUSTRIAL & PROVIDENT SOCIETY NO. 23580R

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BOARD, EXECUTIVE AND ADVISERS

Board

Peter Reynolds (Chairman)
Alan Forbes JP
Alan Meekings
Gary Phillips (appointed 26 February 2008)
Tom Martin (Chief Executive)
David Thomas (resigned 4 February 2008)

Executive Directors

Tom Martin
Lorraine Murphy

Company Secretary

Rod Ainsworth

Registered office

Unit 6
Godalming Business Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

Principal Solicitors

DMH Stallard
Gainsborough House
Pegler Way
Crawley
West Sussex
RH11 7FZ

Bankers

NatWest Bank plc
143 High Street
Bromley
Kent
BR1 1JH

Auditors

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

REPORT OF THE BOARD

Grange Management (Southern) Limited ("Grange") presents its report and audited financial statements for the year ended 31 March 2008.

Principal Activities

The principal activities of the Society are to provide management services, largely to the residential leasehold property market, and the holding of residential property for investment purposes. It is a subsidiary of Affinity Sutton Group Limited ("Affinity Sutton").

The Year Under Review

The Society made a deficit for the year of £136,000 (2007: a surplus of £39,000) on a Turnover of £1.9 million (2007: £1.6 million). Operating Costs increased to £2.1 million (2007: £1.5 million), reflecting the significant investment the business made in its future, facilitating growth of the historic business and expansion into new business areas. The company relocated from its previous business base in Chichester to new premises in Godalming. Significant costs incurred in this process were redundancy payments, recruitment costs, office refurbishment costs, printing, removal costs, marketing and training. This inward investment in the business has put it on a strong footing to deliver increased profit in 2008/9 and subsequent years.

During the year the Society completed arrangements for a loan from Barclays Bank plc to fund expansion of its investment in additional freehold blocks and investment in future expansion of the business activities. This increased interest payments to £58,000 (2007: £34,000) and increased total gross long term loans at 31 March 2008 to £1,030,000 (2007: £99,000)

Wardens' Accommodation

The Society has reviewed its approach to managing its portfolio of accommodation occupied by scheme wardens. It has adopted a policy of consulting residents on disposal of these properties when they become vacant. Where an individual scheme's residents are in favour the flats and houses will sold on the open market. As a result the wardens accommodation, which was previously carried at a value of zero in the financial statements are now shown at 50% of the current open market value. This discount against full open market value reflects the time it will take to dispose of the full portfolio and the probability that not all residents will support the disposal of the properties. The full market value of the accommodation is £8.26 million and the amount reflected in the financial statements is £4.1 million.

The Board's Responsibilities in Respect of the Board Report and the Financial Statements

The Board is responsible for preparing financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the Society, and of the surplus or deficit for that period. In preparing those financial statements the Board is required to:

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

REPORT OF THE BOARD (CONTINUED)

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board members who held office at the date of approval of this Board Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware, and that each Board member has taken all the steps that he or she ought to have taken as a Board member to make himself or herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

The Society's System of Internal Control

Responsibility

The Board is responsible for ensuring that there are sound systems of internal control across Grange which focus on the significant risks that threaten the Society's ability to meet its objectives and provides reasonable assurance for the safeguarding of assets.

The key means of identifying, evaluating and managing the systems of internal control are:

- the existence of suitable governance arrangements;
- adherence to Group-wide financial regulations and delegated authorities;
- key accounting policies and other procedures;
- management structures that ensure adequate separation of key duties and responsibilities;
- formal risk management arrangements which involve the assessment of all major business risk and action plans to mitigate the worst effects of those risks;
- a Group level Health and Safety function: Grange secured a Royal Society Prevention of Accident (RoSPA) Silver Award for its management of Health and Safety;
- a Group-wide management assurance function, incorporating Audit, structured to deliver the Group Audit Committee's three-year, risk-based audit plan, quality assurance and risk assessment. As well as having its own internal audit team, the Group uses the services of external firms of professional auditors and other specialists as appropriate. All audit reports are reviewed by the Group Audit Committee, which also receives updates on the implementation of agreed external and internal audit recommendations;
- business planning, budgeting and budgetary control arrangements; and
- a Group-wide policy and procedure for dealing with suspected fraud and whistleblowing.

REPORT OF THE BOARD (CONTINUED)

The Chief Executive has reviewed the internal controls and assurance arrangements by reference to checks and reports on the above. He has reported to the Board that he is satisfied with the effectiveness of the control systems. The Group Audit Committee has also expressed its satisfaction with these arrangements.

Status

No weaknesses were found in internal controls which would result in material losses, contingencies or uncertainties, or which require disclosure in the financial statements.

Going Concern

After reviewing Grange's strategic business planning and control procedures, the Board has a reasonable expectation that Grange Management (Southern) Limited has adequate resources to continue operating for the foreseeable future.

Directors

The Directors holding office at the date of this report are listed in Page 3.

Directors' and officers' liability

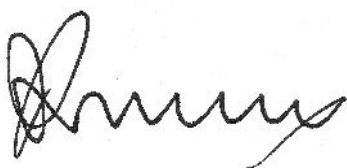
Directors' and officers' liability insurance has been purchased by the Society during the year.

Political and Charitable Contributions

The Society made no political contributions during the period (2007:£nil).

Auditors

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



Peter Reynolds
Chairman
8 July 2008

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Grange Management (Southern) Limited for the year ended 31 March 2008 which comprise the Income and Expenditure Account, the Statement of Total Recognised Surpluses and Deficits, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditors

The responsibility of the Society's Board for the preparation of the Board's report, and the preparation of financial statements in accordance with applicable United Kingdom law and UK accounting standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Society has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Board's Report and consider the implications for our report if we become aware of any apparent misstatements within it. We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

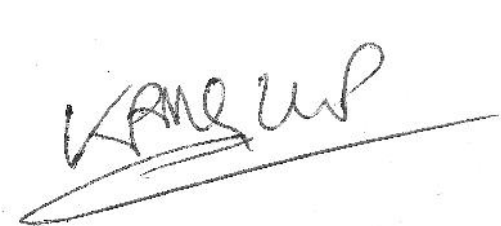
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 March 2008 and of its deficit for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002.

A handwritten signature in black ink, appearing to read 'KPMG LLP', is written over a horizontal line. The signature is stylized and cursive.

KPMG LLP
Chartered Accountants & Registered Auditor
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

	Notes	2008 £'000	2007 £'000
Turnover	2	1,945	1,554
Operating costs	2	<u>(2,115)</u>	<u>(1,485)</u>
Operating (deficit)/surplus	2	<u>(170)</u>	<u>69</u>
Surplus on disposal on properties		73	14
Interest receivable and similar income		4	4
Interest payable and similar charges	6	<u>(58)</u>	<u>(34)</u>
(Deficit)/Surplus on ordinary activities before taxation	5	(151)	53
Taxation	7	<u>15</u>	<u>(14)</u>
(Deficit)/Surplus for the year	13	<u>(136)</u>	<u>39</u>

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2008

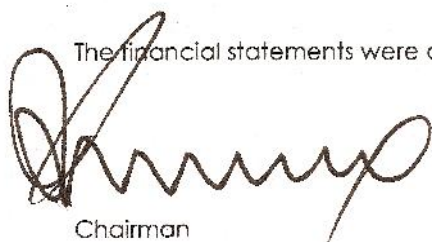
	Notes	2008 £'000	2007 £'000
(Deficit)/Surplus for the financial year		(136)	39
Surplus arising on the revaluation of fixed assets	8	<u>4,046</u>	<u>380</u>
Total recognised surplus for the year		<u>3,910</u>	<u>419</u>

BALANCE SHEET AS AT 31 MARCH 2008

	Notes	2008 £'000	2007 £'000
Tangible fixed assets			
Investment properties	8	7,436	3,360
Other fixed assets	8	122	1
Total tangible fixed assets		7,558	3,361
Current assets			
Debtors	9	754	319
Cash at bank and in hand		11	56
		765	375
Creditors: amounts falling due within one year	10	(586)	(755)
Net current assets /(liabilities)		179	(380)
Total assets less current liabilities		7,737	2,981
Creditors: amounts falling due after more than one year	11	945	99
Capital and reserves			
Share capital	12	-	-
Revaluation reserve	13	5,316	1,270
Income and expenditure account	13	1,476	1,612
		7,737	2,981

All shareholdings relate to non-equity interests.

The financial statements were approved by the board on 8 July 2008 and were signed on its behalf by:



Chairman

8 July 2008



Director



Company Secretary

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

1. Accounting policies

The Society is incorporated under the Industrial and Provident Societies Act 1965. The accounts are prepared under the Industrial and Provident Societies Acts 1965 to 2002 and are in accordance with applicable Accounting Standards in the United Kingdom.

No cash flow statement is presented as the Society's cash flows are reported in the consolidated accounts of its immediate parent company.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting, modified by the revaluation of investment properties.

Turnover

Turnover represents management fees, ground rents, promotion and assignment fees and other sundry income.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected useful economic lives:

Fixtures, fittings and equipment	-	5 years
Computer equipment	-	4 years
Leasehold offices	-	Over the term of the lease

Investment Properties

Grange Management (Southern) Limited has an interest in the freeholds of certain properties. These are treated under SSAP 19 as investment properties.

The freeholds are deemed investment properties because these are held for the purpose of:

- *ensuring a continuing ground rent income; and
- *guaranteeing future management income.

In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve.

No depreciation is provided in respect of investment properties. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate these would not give a true and fair view and that it is necessary to adopt SSAP19 in order to give a true and fair view.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 - CONTINUED

1. Accounting policies (continued)

Leased assets

Finance leases are recorded in the balance sheet as assets at their fair value at the date of inception of the leases together with a corresponding liability for future rents. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Value Added Tax

The company's VAT affairs are dealt with under a Group registration in the name of The Affinity Sutton Group Limited. The company recovers only a small proportion of input VAT. Expenditure is therefore shown inclusive of VAT.

Pension Costs

The company participates in three pension schemes, defined benefit pension schemes with Downland Housing Group Pension and Assurance Scheme and the Social Housing Pension Scheme, and a defined contribution scheme with Friends Provident. The assets of the schemes are held separately from those of the company.

The contribution level is set by a qualified actuary and is charged to the income and expenditure account so as to spread the cost over the service lives of employees.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Deferred taxation

Full provision is made for timing differences which have arisen at the balance sheet date where material. Amounts recognised in respect of deferred tax are discounted.

Loans and other Financial Instruments

Loans and other financial instruments are stated in the balance sheet at the amount of net proceeds. Financial costs relating to new loans are deducted from the loan and amortised over the term of the loan at a constant rate on the carrying value.

Financial costs relating to the renegotiation of existing facilities are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 - CONTINUED

2. Turnover, operating costs and operating surplus

	2008 £'000	2007 £'000
Income		
Management fees	1,138	1,056
Ground rents	160	148
Administration fees	187	147
Recharges	(2)	1
Other	462	202
	<u>1,945</u>	<u>1,554</u>
Operating Costs:		
Staff costs	(1,201)	(710)
Group costs	(475)	(557)
Office overheads	(244)	(137)
Other	(195)	(81)
	<u>(2,115)</u>	<u>(1,485)</u>
Operating (Deficit) / Surplus	<u>(170)</u>	<u>69</u>

3. Directors' emoluments

The directors are defined for the purpose of emoluments as the chief executive, any person with the title of director and any person reporting directly to the chief executive or directly to the Board.

The emoluments were as follows:

	2008 £'000	2007 £'000
Emoluments (including compensation for loss of office and benefits in kind)		
Non Executive Directors	12	-
Executive Directors	139	77
Pension contributions - in respect of services as directors	3	-
	<u>154</u>	<u>77</u>
Highest paid director	<u>85</u>	<u>77</u>
Pension contributions of the highest paid director	<u>-</u>	<u>-</u>
Expenses reimbursed to directors not chargeable to United Kingdom income tax	<u>7</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

4. Employee information

The average monthly number of persons including executive directors employed during the year was:

	2008 No.	2007 No.
Full time equivalent	<u>32</u>	<u>18</u>
Staff costs including directors emoluments:	£'000	£'000
Wages and salaries	756	466
Social security costs	69	38
Pension costs (note 15)	80	77
Redundancy costs	<u>89</u>	<u>-</u>
	<u>994</u>	<u>581</u>

5. Deficit/(Surplus) on ordinary activities before taxation

	2008 £'000	2007 £'000
Deficit/(Surplus) on ordinary activities before taxation is stated after charging:		
Depreciation on leased assets	5	3
Depreciation on other fixed assets	4	-
Operating lease rentals - Land and Buildings	64	40
Auditors remuneration: in capacity as auditors	9	9

6. Interest payable and similar charges

	2008 £'000	2007 £'000
Interest payable	49	34
Re-financing charge	<u>9</u>	<u>-</u>
	<u>58</u>	<u>34</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

7. Taxation

Analysis of charge in period

UK Corporation tax	2008 £'000	2007 £'000
Current tax on income for the period	-	14
Adjustment in respect of prior periods	<u>(15)</u>	<u>-</u>
Tax (credit)/charge on surplus on ordinary activities	<u>(15)</u>	<u>14</u>

Factors affecting the tax charge for the period:

The current tax charge for the period is 30% (2007: 30%), the standard rate of corporation tax in the UK. The differences are explained below.

	2008 £'000	2007 £'000
(Deficit) / Surplus on ordinary activities before tax	(151)	53
Current tax at 30%	(45)	16
Marginal tax relief	-	(2)
Non-recoverable losses	<u>30</u>	<u>-</u>
Current tax charge for the period	<u>(15)</u>	<u>14</u>

8. Tangible fixed assets

Investment Properties freehold and buildings

	2008 £'000		2007 £'000	
	Wardens accommodation	Freeholds	Total	Total
Valuation at 1 April 2007	-	3,360	3,360	2,840
Additions	-	62	62	140
Disposals	-	(32)	(32)	-
Revaluation adjustment	4,132	(86)	4,046	380
At 31 March 2008	<u>4,132</u>	<u>3,304</u>	<u>7,436</u>	<u>3,360</u>
Historical costs of above properties				
Gross cost			<u>2,152</u>	<u>2,090</u>
Historic cost net book value			<u>2,152</u>	<u>2,090</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

8. Tangible fixed assets – (continued)

The properties were valued as at 31 March 2008 by Drivers Jonas, Chartered Surveyors, on an open market value basis for commercial properties, as defined in the Royal Institute of Chartered Surveyors' Appraisal and Valuation manual.

The main assumption of the valuation was a capitalised ground rental income at a yield of 5.0% in accordance with evidence of transactions in comparable property. In addition the freeholder covenants to insure buildings, and this is the total sum insured, from which has been determined the commission that a purchaser would be able to retain, and this yield has been capitalised at 17.0% in accordance with Leasehold Valuation Tribunal decisions.

Other fixed assets

	Leasehold Offices £'000	Fixtures, Fittings and Equipment £'000	Motor Vehicles £'000	Total £'000
Cost /Valuation				
At 1 April 2007	-	25	28	53
Additions	58	73	-	131
Disposals	-	-	(28)	(28)
At 31 March 2008	58	98	-	156
Depreciation				
At 1 April 2007	-	(25)	(27)	(52)
Charge for year	(5)	(4)	-	(9)
Disposals	-	-	27	27
At 31 March 2008	(5)	(29)	-	(34)
Net book value as at 31 March 2008	53	69	-	122
Net book value as at 31 March 2007	-	-	1	1

Included above are assets held under finance leases or hire purchase contracts as follows:

	2008 £'000	2007 £'000
Net Book value		
Motor Vehicles	-	1
Depreciation Charge for the year		
Motor Vehicles	-	3

Net obligations under finance leases and hire purchase contracts are secured on the assets acquired.

9. Debtors

	2008 £'000	2007 £'000
Trade Debtors	185	82
Amounts owed by managed schemes	523	205
Amounts due to group undertakings	3	-
Other debtors and prepayments	43	32
	754	319

All amounts are due within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

10. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank Overdraft	-	502
Trade Creditors	142	31
Other creditors	99	7
Amount payable to group undertakings	62	4
Other taxation and social security	50	40
Scheme creditors	133	72
Accruals	98	7
Corporation tax	2	14
Bank Loan	-	78
	<u>586</u>	<u>755</u>

11. Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Loans from banks	1,030	99
Loan set up cost	(85)	--
Loan Maturity	<u>945</u>	<u>99</u>

	2008 £'000	2007 £'000
Due between one and two years	-	99
Due between two and five years	-	-
Due after more than five years	1,030	-
	<u>1,030</u>	<u>99</u>

Grange Management (Southern) Limited has a £1.5 million secured loan facility from Barclays Bank plc. The loan has a revolving element of £0.5 million and a term loan facility of £1.0 million and a maturity of January 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

12. Share Capital and movement on shareholders' funds

	2008	2007
	£	£
Allotted, issued and fully paid		
At beginning of year	10	11
Additions in the year	1	-
Redeemed in year	<u>(1)</u>	<u>(1)</u>
At the end of the year	<u><u>10</u></u>	<u><u>10</u></u>

The shares of Grange Management (Southern) Limited carry no rights to a dividend, or provision for redemption or a distribution on winding up. The members are entitled to a vote at annual and special meetings of the company.

13. Reserves

	Income and expenditure account £'000	Investment property revaluation reserve £'000	Total £'000
At 1 April 2007	1,612	1,270	2,882
Deficit for the year	(136)	-	(136)
Revaluation during the year	-	4,046	4,046
Balance at 31 March 2008	<u><u>1,476</u></u>	<u><u>5,316</u></u>	<u><u>6,792</u></u>

14. Commitments

The amounts payable in respect of operating leases are shown below, analysed according to the expiry date of the lease:

	2008	2007
	£'000	£'000
Land and buildings:		
Expiry date:		
Within one year	84	-
Between one and two years	84	-
Between two and five years	252	-
After five years	252	-
	<u><u>672</u></u>	<u><u>-</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

15. Pensions

The company participates in three pension schemes. One is a defined benefit final salary pension scheme, the Downland Housing Group Pension and Assurance scheme. The scheme closed to new entrants from 31 August 2002. The second scheme, a defined contribution scheme with Friends Provident, commenced for new entrants with effect from 1 September 2002 and was closed to new entrants from 1 April 2005. The company now offers participation in the Social Housing Pension Scheme, a defined benefit scheme.

The pension contributed by the company for the year for these schemes was £79,572 (2007: £76,896). The cost is assessed in accordance with advice from qualified actuaries.

Social Housing Pension Scheme ("SHPS")

The company participate in the Social Housing Pension Scheme ("SHPS"). The scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the scheme is subject to adherence with the employer responsibilities and obligations as set out in the 'SHPS House Policies and Rules Employer Guide'

The scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available namely:

- 3.1 Final salary with a 1/60th accrued rate
- 3.2 Final salary with a 1/70th accrued rate
- 3.3 Career average revalued earnings ("Care") with a 1/60th accrual rate

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

The company has elected to operate the 1/60th benefit structure for active members as at 31 March 2007 and the Care benefit structure for new entrants from 1 April 2007.

The trustee commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

The actuarial valuation assesses whether the scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Association paid contributions at the rate of 12.7%. Member contributions varied between 2.9% and 8.4% depending on age.

As at the balance sheet date there were 22 active members of the scheme employed by the company and managed schemes. The company continues to offer membership of the scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly due to the nature of the scheme, the accounting charge for the period under FRS 17 represents the employer contribution payable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

15. Pensions (continued)

The last formal valuation of the scheme was performed as at 30 September 2005 by a professionally qualified actuary using the projected unit credit method. The market value of the scheme's assets at the latest valuation date was £1,278 million. The valuation revealed a shortfall of assets compared to liabilities of £283 million, equivalent to a past funding service level of 82%.

The scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the scheme as at 30 September 2007. Such a report is required by legislation for years in which a full actuarial report is not carried out. The funding update revealed an increase in the assets of the scheme to £1,760 million and indicated a decrease on the shortfall of assets compared to liabilities to approximately £209 million, equivalent to a past service funding level of 89%. Annual funding updates of the SHPS scheme are carried out using approximate actuarial techniques rather than member by member calculations and will therefore not produce the same results as a full actuarial valuation. However, they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the scheme have been determined by reference to the last full actuarial valuation, the following notes relate to the formal actuarial valuation as at 30 September 2005. The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% per annum
Investment Return pre-retirement	7.2
Investment return post-retirement	4.8
Rate of salary increases to 30 September 2010	5.0
Rate of salary increases from 1 October 2010	4.0
Rate of pension increases	2.5
Rate of price inflation	2.5

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit Structure	Long Term Joint Contribution Rate (% of pensionable salaries)
Final salary with 1/60 th accrual rate	17.6
Final Salary with 1/70 th accrual rate	15.3
Career average revalued earnings with a 1/60 th accrual rate	14.1

If an actuarial valuation reveals a shortfall of assets compared to liabilities the trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following the consideration of the results of the actuarial valuation it was agreed that the shortfall of £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

With effect from 1 April 2007 the employer and employee contribution rates for 2007 – 2008 will be 12.7% and 2.9% to 8.4% of pensionable salaries respectively.

Employers that participate in the scheme on a non – contributory basis pay a joint contribution rate (that is, a combined employer and employee rate)

Employers that have closed the scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

15. Pensions (continued)

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into SHPS.

Employers joining the scheme after 1 October 2002, including the Company, that do not transfer any past service liabilities to the scheme, pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 30 September 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plans are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008. An actuarial report will be prepared as at 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the scheme. The debt is due in the event of the employer ceasing to participate in the scheme or the scheme winding up.

The debt for the scheme as a whole is calculated by comparing the liabilities for the scheme (calculated on a buyout basis: that is the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the scheme's liability attributable to employment with the leaving employer compared to the total amount of the scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total scheme liabilities, scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

Downland Housing Group Pension & Assurance Scheme

The scheme is administered on behalf of the trustees by the Legal & General Pension Trust and is funded to cover future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date. The scheme is subject to a full independent valuation every three years on the basis of which the qualified actuary certifies that the rate of the employer's contributions, together with contributions paid by employees and proceeds of the scheme assets, are sufficient to fund the benefits payable under the scheme.

The last full actuarial valuation was at 31 March 2006 and has been updated for FRS 17 purposes to 31 March 2008 by an independent qualified actuary. The major assumptions used in this valuation were:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

15. Pensions (continued)

Assumptions

	2008	2007	2006
Inflation	3.6%	3.2%	3.0%
Pension increases in payment	3.6%	3.2%	3.0%
Discount rate	6.3%	5.4%	4.9%
Expected return on equities	7.5%	7.8%	7.5%
Expected return on bonds	6.3%	5.3%	4.9%
Expected return on other assets	4.8%	6.8%	7.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the time scale covered, might not necessarily be borne out in practice. In 2005 – 2006 there was no employer contribution. The scheme was closed for future service accrual in March 2005. There is an annual payment of £43,000 to fund the scheme deficit.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly due to the nature of the scheme, the accounting charge for the period under FRS 17 represents the employer contribution payable and the details below reflect the whole scheme.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and might be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

	2008 £'000	2007 £'000	2006 £'000
The fair value of the assets			
Equities	3,596	3,817	4,533
Bonds	567	563	729
Other	2,536	2,633	1,332
	<u>6,699</u>	<u>7,013</u>	<u>6,594</u>
Present value of scheme liabilities	(7,857)	(9,021)	(9,663)
Scheme deficit	<u>(1,158)</u>	<u>(2,008)</u>	<u>(3,069)</u>

Movement in deficit during the year

	2008 £'000	2007 £'000
Deficit in scheme at 1 April	(2,008)	(3,069)
Change to Bid Value of Assets	<u>(26)</u>	<u>(3,069)</u>
	<u>(2,034)</u>	
Movement in year:		
Current service cost	-	-
Past service costs	-	-
Expected return on assets	478	443
Interest cost	(473)	(460)
Curtailment loss	(39)	(60)
Actuarial gain / (loss)	580	806
Expenses	(32)	(30)
Contributions	<u>362</u>	<u>362</u>
Deficit in scheme at 31 March	<u><u>(1,158)</u></u>	<u><u>(2,008)</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

15. Pensions (continued)

The following information represents amounts charged in the financial statements following implementation of FRS 17 :

	2008 £'000	2007 £'000
Amounts charged to operating activities		
Current service cost	-	-
Curtailment loss	(39)	(60)
Past service costs	-	-
	<u>(39)</u>	<u>(60)</u>
Amounts charged to pension finance costs		
Expected return on pension scheme assets	452	443
Interest on pension scheme liabilities	(473)	(460)
	<u>(21)</u>	<u>(17)</u>

	2008 £'000	2007 £'000
Actuarial gains and losses on defined benefit pension scheme		
Actual return less expected return on pension scheme assets	(744)	147
Experience gains and losses arising on scheme liabilities	(14)	(14)
Changes in assumptions underlying the present value of the scheme liabilities	1,338	673
	<u>580</u>	<u>806</u>

	2008 £'000	2007 £'000
History of experience gains and losses		
Difference between the expected and actual return on scheme assets:	(744)	147
Value of assets	6,699	7,013
As a percentage of scheme assets	(11.1%)	2.1%
Experience losses of scheme liabilities	(14)	(14)
Present value of liabilities	7,857	9,021
As a percentage of scheme liabilities	(0.2%)	(0.2%)
Actuarial gains / (losses) recognised in Statement of Total Recognised Gains and Losses	1,338	806
Present value of liabilities	7,857	9,021
As a percentage of scheme liabilities	17.0%	8.9%

Friends Provident

This scheme is administered by Friends Provident and is a defined contribution scheme. The employer contribution rate payable by the company per annum is dependent on the contribution by the employee as follows:

Employee Contributes	Employer Contributes
Less than 3%	0%
3% - 4%	6%
5% or more	10%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 – CONTINUED

16. Affinity Sutton Group Limited

The Company's ultimate parent undertaking is Affinity Sutton Group Limited, a company incorporated in Great Britain and registered in England and Wales. Group accounts have been prepared by the ultimate parent undertaking and are available from the registered address as detailed on page 3.

17. Related party transactions

Grange Management (Southern) Limited has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose transactions with other members of Affinity Sutton Group Limited.

18. Parent Company and ultimate parent undertakings

The Society is a subsidiary undertaking of Affinity Sutton Group Limited, a company incorporated in Great Britain and registered in England and Wales.

Group accounts have been prepared by the ultimate parent undertaking and are available from the registered address, which is Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

Grange Management (Southern) Limited

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