

TOWER HOMES LIMITED

Annual Report and Financial Statements for the year ended 31 March 2005

Contents

Page:

1	Executive and advisers
2	Report of the Tower Homes Board
7	Report of the independent auditors
8	Income and expenditure account
9	Balance sheet
10	Cash flow statement
11	Notes on the financial statements

TOWER HOMES LIMITED

EXECUTIVE AND ADVISERS

Tower Homes Board

Ainsley Forbes (Chair)
Rodney Morton (Honorary Treasurer)
Jane Everton
Ron Goodman
Jeremy Galloway
Gillian Nester-Smith
Anthony Omo
Ranil Perera
Mike Pudelek
Peter Robinson
Dru Vesty, MBE

Secretary and Registered Office

Jan Quirke
Osborn House
Osborn Terrace
London
SE3 9DR

Chief Executive

Steve Walker

Principal Solicitors

Prince Evans
77 Uxbridge Road
London
W5 5ST

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

Trowers & Hamlins
Sceptre Court
40 Tower Hill
London
EC3N 4DX

Bankers

Barclays Bank plc.
41 Woolwich New Road
London
SE18 6NU

Auditors

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

TOWER HOMES LIMITED

REPORT OF THE TOWER HOMES BOARD

Year ended 31 March 2005

The Tower Homes Board is pleased to present its report together with the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

Tower Homes is one of the leading providers of affordable and shared ownership housing in the UK. Serving London and the South East, working in partnership with central and local government, and local communities, our mission is to "create places where people want to live". We aim to provide high quality homes, with services to match, and to grow to meet ever increasing demand in our area of operation.

Tower Homes is a subsidiary undertaking of London & Quadrant Housing Trust (the Trust). Its principal activity is the provision of low cost home ownership.

Our objectives

The L&Q Group exists to create places where people want to live. This mission is realised through focusing on:

- > Quality homes that are attractive and meet high standards
- > Quality services that respond to what matters to our customers
- > Building for the future to meet the demand for new homes.

A number of measures have been set to determine how successful we are in achieving our objectives. These include:

- > Quality homes - meet the Decent Homes standard by 2010, reducing voids and selling part/full sale homes sooner.
- > Quality services - improvement in resident satisfaction with our core services, and with us as a landlord.
- > Building for the future - making the best use of our reserves to maximise new supply, meeting our growth targets, and improving resident satisfaction with their estate/neighbourhood

We have set a number of key indicators which enable us to measure how well we are doing. For our core business these include

	Target
Average sales period	Max. 6-10 weeks (depending on presence of show home)
Sales	No more than 2% of homes unsold after 3 months.
Rent arrears	3.9% or less
Tenant satisfaction	Regular resident surveys to drive our neighbourhood and housing service strategy
Staff turnover	Maintain at an average of 15% or lower in all disciplines
Vacancy turnaround	7 weeks or less
Financial health	Maintain committed long term facilities at 1 year in advance of need Maintain cash balance/committed facilities at > 3 months operating need Maintain gearing < 50% Maintain interest cover (including sales) at above 130% Maintain interest cover (excluding sales) at above 110%.

Key performance indicators are produced on a monthly basis and reported to the Executive Group and are reported quarterly to the Tower Homes Board.

TOWER HOMES LIMITED

REPORT OF THE TOWER HOMES BOARD (continued)

Year ended 31 March 2005

Our ability to meet our objectives is dependent upon how we manage our financial resources. Whilst the association does not trade for profit, our annual surplus is vital for the association to invest in new homes and services, meet its commitment to lenders, continue to raise further private finance and provide for unexpected situations. The level of reserves necessary to support our objectives is determined by the group's financial strategy, which is approved by all group members.

The key strengths of the association and group which enable our objectives to be achieved are:

- > Effective governance and leadership which are continually reviewed and adapted to suit the changing circumstances of the association
- > A skilled and motivated workforce which shares the association's vision and values, and enables us to deliver our promises to customers
- > Financial strength which enables us to invest in quality and growth, take calculated risks and compete
- > Our reputation, which is maintained by the effective delivery of our mission.

The environment in which we operate creates a number of challenges for us. These include:

- > Income restriction through rent restructuring, and limits on supporting people grant
- > Competition for capital and revenue grants
- > Increasing customer demands/ expectations including the need to deal with anti-social behaviour and managing estates
- > Regulation from the Housing Corporation, and through Audit Commission inspection
- > Pressure of increasing costs through the significant level of work required to ensure properties meet the decent homes standard, and through wage inflation
- > Competition to recruit and retain the right staff.

Our five year plan incorporates our detailed response to these challenges and demonstrates how Tower Homes contributes towards achieving our objectives.

Performance in 2004/05

Income & expenditure account

Tower Homes achieved a surplus for the year after tax of £7.5 million. This compares to a surplus of £4.4 million in 2003/04. At 31 March 2005 Tower Homes had 3,353 homes in management. In addition there were 433 homes under development.

During 2004/05 Tower Homes generated a surplus on disposal of housing properties through staircasing sales of £5.1 million.

Balance Sheet

On the capital side the association spent £51.3 million on the acquisition, development and improvement of properties, and received £21.3 million social housing grant.

The rent surplus fund was abolished by the Housing Corporation in 2004/05. As a result the balance in the restricted reserve has been transferred in to the revenue reserve. The association does not set aside any other surpluses in to restricted or designated reserves.

Treasury

The association's treasury management policy enables it to effectively manage the association's cash flows, banking, money market and capital market transactions and the risks associated with those activities. At 31 March 2005 the association had borrowings of £30 million.

TOWER HOMES LIMITED

REPORT OF THE TOWER HOMES BOARD (continued)

Year ended 31 March 2005

Derivatives and other financial instruments

The association is permitted under its rules to enter into a limited number of derivative transactions to manage interest rate risk. The association is not permitted to trade in financial instruments. Responsibility for managing interest rate and liquidity risk is delegated to the Treasury Committee. Approved policies for managing these risks are summarised below:

- > Interest rate risk - the association finances its operations through a combination of borrowing and investment of revenue reserves. The amount of borrowing and its terms are determined and regularly reviewed by the Treasury Committee. Exposure to floating rates of interest is controlled through the use of interest rate swaps, caps and collars or other interest options approved by the Housing Corporation.
- > Liquidity risk - short term liquidity is managed through the use of short term loan facilities and working capital management. Longer term liquidity risk is controlled by the application of limits to the amount of short term debt as a proportion of total debt. Group investment and borrowing policies are regularly reviewed by the Treasury Committee. The association ensures it has adequate, but not excessive cash resource, borrowing arrangements, overdraft and/or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of our business objectives. The association maintains an average cash balance of no less than three months net operating cost
- > Currency risk - the association does not engage in foreign currency transactions, and so is not exposed to exchange rate risk.
- > Refinancing risk management - the association ensures that its borrowing, private financing and partnership arrangements are negotiated, structured and managed with a view to achieving the most favourable and competitive terms for the organisation.

TOWER HOMES' BOARD'S STATUTORY RESPONSIBILITIES

Housing association law requires the association to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the association and of the surplus or deficit for that period. In preparing those financial statements, the Board is 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 association will continue in business.

The Board is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the association and enables its members to ensure that the financial statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. It also has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the group to prevent and detect fraud and other irregularities.

INTERNAL CONTROL

The Tower Homes' Board has overall responsibility for the association's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Tower Homes' Board with reasonable and not absolute assurance against material mis-statement or loss.

The Tower Homes' Board has established a sound and comprehensive framework to be able to assess the effectiveness of the internal controls system. This framework gathers assurance from a number of sources as summarised below:

TOWER HOMES LIMITED

REPORT OF THE TOWER HOMES BOARD (continued)

Year ended 31 March 2005

Audit

The Board has delegated responsibility for overseeing the adequacy and effectiveness of the association's internal controls system to the Audit & Risk Committee. The association's internal audit team reports directly to the Audit & Risk Committee and meets regularly with the Chairman of the Governing Board. An annual assurance report is produced by the internal auditor summarising the systems audit programme and confirming that the association has a satisfactory internal control system in place. Returns are also presented to the Audit & Risk Committee on financial performance on a quarterly basis and an annual return is presented to the Housing Corporation. The association has in place standing orders and policies and procedures together with a whistle blowing policy and a code of conduct for fraud.

Management Assurances

Management assurances are received by the Audit & Risk Committee which confirm that recommendations have been implemented by the agreed target date. Subsequent internal audit reviews are undertaken to check that those recommendations have been properly implemented.

Risk Management

Audit & Risk Committee oversees the risk management cycle which governs the ongoing process of establishing and communicating responsibilities, identifying risks and establishing a risk management framework to mitigate those risks. Management responsibility for the identification of strategic risks is clearly defined and operates through a rolling risk assessment exercise. Risk maps are produced on an activity basis. Operational risks are identified through the internal audit and best value processes. The association operates a system of control risk self-assessment and Executive Group members have provided self certification on compliance with key aspects of the internal controls framework in the association.

External Audit

The work of the external auditors provides some assurance through their interim and final audit visits and the provision of an audit strategy, audit report and management letter. Quarterly meetings are held by Executive Group members with the external auditors to provide an update on changes in our business and to discuss strategic and technical matters.

Audit & Risk Committee

The Audit & Risk Committee meets regularly with members of the Executive Group which includes The Tower Homes Chief Executive, the internal auditors and external auditors to review specific reporting and internal control matters and to satisfy themselves that the systems are operating effectively. The Audit & Risk Committee and Tower Homes' Board review management letters from the external auditors dealing with any significant control matters raised. Both the internal auditors and external auditors have direct access to the Audit & Risk Committee.

Quality Management Systems

The quality of the association's management systems is acknowledged by its Charter Mark award and the Investors in People accreditation.

Regulatory Reports

The association reports to the Housing Corporation through a range of regulatory returns. The association's internal regulation panel ensures that regulatory matters are dealt with promptly and efficiently, co-ordinates the self monitoring system operated by the Tower Homes' Board and monitors compliance with performance standards. The association operates a self appraisal mechanism.

TOWER HOMES LIMITED

REPORT OF THE TOWER HOMES BOARD (continued)

Year ended 31 March 2005

Performance Indicators

Key performance indicator reports are produced monthly for the Group and are reported quarterly through the Executive Group to the Tower Homes' Board. These reports include performance monitoring on housing management, maintenance, development, lettings, customer satisfaction, staff and financial results. The association has a comprehensive system of financial reporting with the annual budget and long term financial plan being reported to and approved by the Tower Homes' Board.

The Tower Homes' Board, through the reports of the Audit & Risk Committee, for year to 31 March 2005 and up to the date of approval of the accounts, has carried out regular reviews of the effectiveness of the association's system of internal control.

GOING CONCERN

The Tower Homes Board has a reasonable expectation that Tower Homes Ltd has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

THE TOWER HOMES BOARD AND EXECUTIVE OFFICERS

Each member of the Tower Homes Board holds one fully paid share of £1 in Tower Homes Ltd, which is cancelled on cessation as a member. The Chief Executive holds no interest in Tower's share capital.

AUDITORS

The association is in the process of carrying out a periodic retender of its external audit arrangements. A resolution for the appointment of the auditors will be put to the Annual General Meeting.

On behalf of the Tower Homes Board



Ainsley Forbes
Chair

Date: 16 June 2005

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TOWER HOMES LIMITED

Year ended 31 March 2005

We have audited the financial statements on pages 8 to 24.

This report is made solely to the association's members as a body in accordance with schedule 1 paragraph 16 to the Housing Act 1996 and with section 9 of the Friendly & Industrial & Provident Act 1968. Our audit work has been undertaken so that we might state to the association'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 association, and the association's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Tower Homes Board and auditors

The association's Board is responsible for preparing the Tower Homes Board's report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board, the Housing Corporation, and by our profession's ethical guidance.

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 & Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. We also report to you, if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the association 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 the directors' remuneration and transactions with the association is not disclosed.

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 mis-statements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 Management Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the association'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 mis-statement, 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 the association's affairs as at 31 March 2005 and of its surplus for the year then ended and have been properly prepared in accordance with the Industrial & Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000.

KPMG LLP

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

16 June 2005

TOWER HOMES LIMITED**INCOME AND EXPENDITURE ACCOUNT**
Year ended 31 March 2005

	note	2005 £'000	2004 £'000
TURNOVER	2	10,624	9,238
Operating costs	2	<u>(7,966)</u>	<u>(5,995)</u>
OPERATING SURPLUS	2	2,658	3,243
Surplus on sale of properties	4	<u>5,127</u>	<u>4,990</u>
SURPLUS ON ORDINARY ACTIVITIES BEFORE INTEREST		7,785	8,233
Interest receivable		733	141
Interest payable and similar charges	7	<u>(900)</u>	<u>(1,365)</u>
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX	8	7,618	7,009
Gift payments	8	<u>-</u>	<u>(800)</u>
SURPLUS BEFORE TAX		7,618	6,209
Tax on surplus on ordinary activities	9	<u>(64)</u>	<u>(1,745)</u>
SURPLUS FOR THE YEAR	16	<u><u>7,554</u></u>	<u><u>4,464</u></u>

All amounts relate to continuing activities.

All recognised surpluses and deficits are included in the income and expenditure account.

The notes on pages 11 - 24 form part of these financial statements.

TOWER HOMES LIMITED**BALANCE SHEET
31 March 2005**

FIXED ASSETS	note	2005		2004	
		£'000	£'000	£'000	£'000
Tangible assets:					
Housing properties					
Cost less depreciation		198,959		171,317	
Social housing grant		(125,724)		(99,698)	
		<u>73,235</u>		<u>71,619</u>	
Other fixed assets		413		568	
Total fixed assets	10	73,648		72,187	
Investments					
Homebuy		26,154		22,561	
Key Worker Living		57,701		37,175	
Social housing grant		(83,855)		(59,736)	
		-		-	
CURRENT ASSETS					
Debtors	11	7,024		6,297	
Cash at bank and in hand		<u>9,021</u>		<u>9,139</u>	
		16,045		15,436	
CREDITORS: amounts falling due within one year	12	<u>(5,196)</u>		<u>(13,517)</u>	
NET CURRENT ASSETS		<u>10,849</u>		<u>1,919</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>84,497</u>		<u>74,106</u>	
CREDITORS: amounts falling due after more than one year	12	53,170		50,333	
PROVISIONS FOR LIABILITIES AND CHARGES	13	-		-	
CAPITAL AND RESERVES					
Share capital	15	-		-	
Revenue reserves	16	31,327		23,724	
Restricted reserves	16	-		49	
		<u>84,497</u>		<u>74,106</u>	

In view of the constitution of the association all share holdings relate to non-equity interests, as disclosed in note 15.

These financial statements were approved by the Tower Homes Board and signed on its behalf by:



AINSLEY FORBES
Chair



RODNEY MORTON
Honorary Treasurer



JAN QUIRKE
Secretary

Date of approval: 16 June 2005

The notes on pages 11 - 24 form part of these financial statements.

TOWER HOMES LIMITED**CASH FLOW STATEMENT**
31 March 2005

		2005		2004	
	note	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18 (a)		5,272		2,372
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		733		141	
Interest paid (including capitalised interest)		<u>(2,947)</u>		<u>(2,741)</u>	
			(2,214)		(2,600)
GIFT	8		-		(800)
NET CORPORATION TAX			(1,302)		(1,979)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Cash paid for construction and purchase of housing properties (excluding capitalised interest)		<u>(51,303)</u>		<u>(41,520)</u>	
Social housing grant received		21,343		10,968	
Proceeds from disposal of fixed assets		<u>32,483</u>		<u>29,329</u>	
			<u>2,523</u>		<u>(1,223)</u>
CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING			4,279		(4,230)
FINANCING					
Loans received		-		4,300	
Loan principal repayments		<u>(4,397)</u>		<u>(213)</u>	
			(4,397)		4,087
DECREASE IN CASH	18 (b)		<u><u>(118)</u></u>		<u><u>(143)</u></u>

The notes on pages 11 - 24 form part of these financial statements.

1 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards and the Statement of Recommended Practice, "Accounting by Registered Social Landlords 2002", and comply with the Accounting Requirements for Registered Social Landlords General Determination 2000. The association has followed the transitional arrangements of FRS17 Retirement Benefits in these financial statements. Accounting policies are consistently applied. A summary of the more important accounting policies is set out below.

Turnover

Turnover represents rental and service charge income receivable. Turnover excludes the first sale of equity on shared ownership properties which is treated as a deduction from capital cost.

Housing properties

Housing properties in the course of construction are stated at cost and are not depreciated.

Housing properties are transferred to completed properties on the first sale of equity, and are stated at cost less depreciation.

Fixed assets and depreciation

Depreciation is charged on a straight-line basis over the expected useful economic lives of fixed assets to write off the cost less estimated residual values at the following annual rates:

Housing properties	100 years
Office furniture and equipment	12.5%
Office computers	20%
Premises	12.5%

Freehold land is not depreciated.

Investments

The Homebuy scheme enables people to buy a property on the open market by contributing 75% of the purchase price of a home through a mortgage and/or savings. The Key Worker Living initiative is designed to assist the purchase of homes by keyworkers. Tower Homes retains a 25% stake in homes purchased through the Homebuy scheme, a variable percentage is retained on the Key Worker Living scheme. Investment in Homebuy and Key Worker Living is funded through social housing grant and held in the balance sheet at historic cost.

Impairment

Housing properties that are depreciated over a period in excess of 50 years are subject to impairment reviews annually. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Sale of shared ownership stock

The first tranche of proceeds arising from the sale of shared ownership properties is charged against the cost of the asset. Proceeds from subsequent sales of the remainder of the asset are charged through the income and expenditure account.

Social housing grant

Where developments have been financed wholly or partly by social housing grant, the cost of those developments has been reduced by the amount of the grant receivable.

Social housing grant is credited to the income and expenditure account to the extent that it is claimed in respect of development administration costs which are not capitalised.

Social housing grant is recyclable where lessees purchase further tranches of equity but only to the extent that sales proceeds exceed the loan outstanding on the asset.

Social housing grant may be repayable in certain circumstances e.g. when a property is no longer used for social housing. When social housing grant becomes repayable it is included as a current liability until it is repaid. The repayment of social housing grant is generally subordinated to the repayment of housing loans as agreed with the Housing Corporation.

Restricted reserves and major repair expenditure

The requirement to set aside annually that proportion of net rental income in the Reinvestment Fund was removed by the Housing Corporation during 2004/05. As a result, the reinvestment reserve has been released to the revenue reserve.

Where major repair expenditure is not directly recoverable from leaseholders and not considered to be an improvement to the property it is charged to the income and expenditure account.

Capitalisation of interest and development administration costs

Interest on borrowings is charged to housing properties under construction up to the date of completion of each scheme. The interest charged is either on borrowings specifically financing a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised.

Staff costs which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

Pension Contributions

Contributions to the defined benefit pension scheme are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice.

The actual pension cost is charged to the income and expenditure account based on spreading the cost of pensions over the service lives of employees.

Contributions to the defined contribution scheme are calculated as a percentage of pensionable salaries of the employees. The actual cost is charged to the income and expenditure account.

Apportionment of management expenses

Direct employee, administration and operating costs have been apportioned to the relevant sections of the income and expenditure account on the basis of costs of the staff directly engaged on the operations dealt with in these financial statements.

Taxation

The charge for taxation is based on the surplus for the year and takes into account taxation deferred. Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

	2005		2004	
	Turnover £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000
			Operating costs £'000	Operating surplus £'000
2 TURNOVER, OPERATING COSTS AND OPERATING SURPLUS				
Income and expenditure from social housing lettings				
Shared ownership accommodation	6,478	(1,802)	4,676	5,747
General needs accommodation	1,853	(919)	934	1,653
	8,331	(2,721)	5,610	7,400
Income and expenditure from other social housing activities				
Key Worker Living	1,412	(1,110)	302	1,092
HomeBuy	275	(283)	(8)	401
	1,687	(1,393)	294	1,493
Other income & expenditure				
Development administration	238	(1,939)	(1,701)	335
Other income	368	(1,913)	(1,545)	10
TOTAL	10,624	(7,966)	2,658	9,238
Surplus on sale of housing properties			5,127	4,990
Interest receivable			733	141
Interest payable			(900)	(1,365)
Surplus on ordinary activities			7,618	7,009

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

3. INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	Shared Ownership accommodation	General Needs accommodation	Total 2005	Total 2004
	£'000	£'000	£'000	£'000
INCOME FROM LETTINGS				
Rents receivable net of identifiable service charge	5,110	1,565	6,675	6,221
Service charge receivable	<u>1,374</u>	<u>346</u>	<u>1,720</u>	<u>1,189</u>
Gross rents receivable	6,484	1,911	8,395	7,410
Less: Rent losses from voids	<u>(6)</u>	<u>(58)</u>	<u>(64)</u>	<u>(10)</u>
Total income from lettings	<u>6,478</u>	<u>1,853</u>	<u>8,331</u>	<u>7,400</u>
Expenditure on lettings activities				
Services	664	139	803	788
Management	726	173	899	810
Routine maintenance	53	336	389	342
Rent loss from bad debts	-	(9)	(9)	42
Major repair expenditure	-	254	254	588
Depreciation	<u>359</u>	<u>26</u>	<u>385</u>	<u>351</u>
Total expenditure on lettings	<u>1,802</u>	<u>919</u>	<u>2,721</u>	<u>2,921</u>
Operating surplus on letting activities	<u>4,676</u>	<u>934</u>	<u>5,610</u>	<u>4,479</u>

The cumulative amount of major repairs grant credited to the income and expenditure account is £345,000 (2004: £345,000).

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

4. SURPLUS ON SALE OF PROPERTIES

	2005	2004
	£'000	£'000
Sale proceeds of right to buy and staircasing sales	11,485	12,269
Grant abated	84	50
Cost of sale	(6,618)	(7,712)
Homebuy disposals	293	499
Key homebuy disposals	-	17
Sales expenses	(117)	(133)
Surplus on sale	<u>5,127</u>	<u>4,990</u>

5. DIRECTORS' EMOLUMENTS

The directors are defined as the members of the Management Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Committee and any member of the senior management team. None of the members received any emoluments.

A proportion of the emoluments of the London & Quadrant Group Directors is charged to the association along with other shared payroll costs, and are included in note 6 below.

6. EMPLOYEE INFORMATION

	2005	2004
	£'000	£'000
Staff costs		
Wages and salaries	1,918	1,715
Social security costs	196	170
Other pension costs	186	182
	<u>2,300</u>	<u>2,067</u>

The above staff costs represent shared payroll costs reimbursed to London & Quadrant Housing Trust in respect of staff employed under joint contracts of employment.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable between one and five years	1,218	960
Repayable wholly or partly in more than 5 years	2,012	1,895
Less: interest capitalised in housing properties	<u>(2,330)</u>	<u>(1,490)</u>
	<u>900</u>	<u>1,365</u>

8. SURPLUS ON ORDINARY ACTIVITIES BEFORE INTEREST

	2005	2004
	£'000	£'000
As stated after charging:		
Depreciation	385	351
Auditors' remuneration:		
- In their capacity as auditors	18	14
- In respect of other services	<u>8</u>	<u>19</u>

In 2005 Tower Homes Ltd did not make any gift aid payments however contributions totalling £1.9 million were made to other group undertakings during the year. This cost is shown as 'other expenditure' in note 2 to these financial statements. In 2004 it made a gift of £300,000 to London & Quadrant Housing Trust, its charitable parent and £500,000 to Tower Two Homes Limited, a charitable subsidiary of the London & Quadrant Housing Trust. The gifts, which were made without condition, entitled Tower Homes Ltd to reduce its corporation tax liability in 2004. Tower Homes converted to charitable status in 2003/04.

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

	2005	2004
	£'000	£'000
UK corporation tax for the year	-	1,992
Adjustment in respect of prior year	64	525
	<u>64</u>	<u>2,517</u>
Deferred tax (note 13)	-	<u>(772)</u>
	<u>64</u>	<u>1,745</u>

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES (continued)

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

	2005	2004
	£'000	£'000
Surplus on ordinary activities before tax	-	6,209
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	-	1,863
Effects of:		
Conversion to charitable status	-	(466)
Capital allowances for period less than depreciation	-	16
Adjustment to tax charges in respect of previous periods	64	525
Other timing differences	-	(193)
	<hr/>	<hr/>
Current tax charge for the year	64	1,745
	<hr/> <hr/>	<hr/> <hr/>

Tower Homes Limited converted to charitable status during 2003/04 and therefore has no tax liability in respect of the results for 2004/05.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

10. TANGIBLE ASSETS

	Freehold social housing properties £'000	Long leasehold social housing properties £'000	Shared ownership housing properties under construction £'000	Office Improve- ments and equipment £'000	Total £'000
Cost					
At 1 April 2004	121,012	1,227	50,081	1,278	173,598
Additions	-	-	55,312	-	55,312
Disposals	(5,448)	-	-	-	(5,448)
Proceeds from shared ownership sales	-	-	(21,992)	-	(21,992)
Transfer to housing properties	23,743	-	(23,743)	-	-
At 31 March 2005	<u>139,307</u>	<u>1,227</u>	<u>59,658</u>	<u>1,278</u>	<u>201,470</u>
Social Housing Grant					
At 1 April 2004	67,690	-	32,008	-	99,698
Received during year	-	-	29,435	-	29,435
Recycled on disposal	(3,325)	-	-	-	(3,325)
Grant abated	(84)	-	-	-	(84)
Transfer to housing properties	13,405	-	(13,405)	-	-
At 31 March 2005	<u>77,686</u>	<u>-</u>	<u>48,038</u>	<u>-</u>	<u>125,724</u>
Depreciation					
At 1 April 2004	883	120	-	710	1,713
Charge for the year	204	26	-	155	385
At 31 March 2005	<u>1,087</u>	<u>146</u>	<u>-</u>	<u>865</u>	<u>2,098</u>
Net Book Value					
At 31 March 2005	<u>60,534</u>	<u>1,081</u>	<u>11,620</u>	<u>413</u>	<u>73,648</u>
At 31 March 2004	<u>52,439</u>	<u>1,107</u>	<u>18,073</u>	<u>568</u>	<u>72,187</u>

At 31 March 2005 the vacant possession market value of housing properties in management, evaluated by Messrs. Knight Frank, was estimated to be £255 million (2004: £242 million) by the Tower Homes Board.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

11. DEBTORS

Amounts receivable within one year:	2005	2004
	£'000	£'000
Arrears of rent and service charges	136	64
Less: provision for bad and doubtful debts	(37)	(35)
	<u>99</u>	<u>29</u>
Social housing grant receivable	814	679
Amount due from group undertakings	4,118	-
Other debtors	1,993	5,589
	<u>7,024</u>	<u>6,297</u>

12. CREDITORS

Amounts falling due within one year:	2005	2004
	£'000	£'000
Recycled capital grant fund (<i>note 14</i>)	-	1,543
Lending authorities for instalments of loan principal and interest due and payable	370	5,360
Capital creditors	1,679	873
Amount due to group undertakings	1,836	3,245
Corporation tax	-	1,238
Other creditors	1,311	1,258
	<u>5,196</u>	<u>13,517</u>

The average number of days between receipt and payment of purchase invoices was 15 days (2004: 20 days)

Amounts falling due after more than one year:	2005	2004
	£'000	£'000
Recycled capital grant fund (<i>note 14</i>)	8,638	10,132
Amounts held on behalf of leaseholders	1,439	1,201
Housing loans	30,093	29,500
Amount due to London & Quadrant Housing Trust	13,000	9,500
	<u>53,170</u>	<u>50,333</u>

Amounts held on behalf of leaseholders represent the cumulative contributions from long leaseholders towards major and cyclical repairs. It is anticipated that liabilities will be met in full by the cumulative contributions made at the date the liability arises. The amount being held has been deposited in a trust account in accordance with National Housing Federation recommendations.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

Housing loans include loans from private lenders and local authorities. Loans are secured by specific charges on housing properties and are repayable at varying rates of interest.

	2005	2004
	£'000	£'000
Housing loans are repayable by instalments and fall due as follows:		
Between two and three years	1,722	1,119
Between three and five years	1,802	1,204
In more than five years	26,569	27,177
	<u>30,093</u>	<u>29,500</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

	2005	2004
	£'000	£'000
Deferred taxation		
At beginning of year	-	772
Released to the income and expenditure account	-	(772)
	<u>-</u>	<u>-</u>
At end of year	<u>-</u>	<u>-</u>

14. RECYCLED CAPITAL GRANT FUND

	2005	2004
	£'000	£'000
Fund at beginning of year	11,675	9,140
Transferred to fund during year	3,409	3,816
Net SHG (abated)/recovered	(64)	242
Homebuy grant abated	704	989
Key Homebuy grant recovered	1,653	174
Transferred from fund during year	(9,354)	(2,954)
Interest earned on fund	615	268
	<u>8,638</u>	<u>11,675</u>
Fund at end of year	<u>8,638</u>	<u>11,675</u>

Recycled capital grant arises on the disposal of a grant funded home. In the case of shared ownership schemes grant is only recyclable to the extent that disposal proceeds exceed the loan outstanding on the asset.

TOWER HOMES LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

15. SHARE CAPITAL

	2005	2004
	£	£
Shares of £1 each issued and fully paid		
At beginning of year	14	13
Additions during the year	-	1
Cancelled during the year	(2)	-
At end of year	<u>12</u>	<u>14</u>

The share capital of the association consists of shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the association. Therefore all share holdings relate to non-equity interests.

16. RESERVES

	Revenue Reserves		Restricted Reserves	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
At beginning of year	23,724	19,309	49	-
Transfer from income and expenditure account	-	(49)	-	49
Transfer to income and expenditure account	49	-	(49)	-
Surplus for the year	7,554	4,464	-	-
At end of year	<u>31,327</u>	<u>23,724</u>	<u>-</u>	<u>49</u>

17. HOUSING STOCK

The number of units of accommodation at 31 March 2005 was:

Units managed and under development:

	31 March 2004	Additions	Transferred	Sold	31 March 2005
Shared ownership	2,755	-	345	(367)	2,733
Rented	435	-	-	-	435
Long leasehold	184	-	-	-	184
Units under development	483	295	(345)	-	433
Supported housing	1	-	-	-	1
	<u>3,858</u>	<u>295</u>	<u>-</u>	<u>(367)</u>	<u>3,786</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

18. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating surplus to net cash inflow from operating activities	2005	2004
	£'000	£'000
Operating surplus	2,658	3,243
Depreciation charges	385	351
Decrease/(Increase) in debtors	388	(857)
Increase/(Decrease) in creditors	1,841	(365)
	<u>5,272</u>	<u>2,372</u>
Net cash inflow from operating activities	<u><u>5,272</u></u>	<u><u>2,372</u></u>

b) Reconciliation of net cash flow to movement in net debt	2005	2004
	£'000	£'000
Decrease in cash in the year	(118)	(143)
Cash inflow/(outflow) from decrease in debt	<u>4,397</u>	<u>(4,087)</u>
Change in net debt resulting from cash flows	<u>4,279</u>	<u>(4,230)</u>
Net debt at 1 April 2004	<u>(25,721)</u>	<u>(21,491)</u>
Net debt at 31 March 2005	<u><u>(21,442)</u></u>	<u><u>(25,721)</u></u>

c) Analysis of changes in net debt	At 1 April	At 31 March	
	2004	Cashflow	2005
	£'000	£'000	£'000
Cash at bank and in hand	9,139	(118)	9,021
Debt due after one year	(29,500)	(593)	(30,093)
Debt due within one year	<u>(5,360)</u>	<u>4,990</u>	<u>(370)</u>
	<u><u>(25,721)</u></u>	<u><u>4,279</u></u>	<u><u>(21,442)</u></u>

19. CAPITAL COMMITMENTS

	2005	2004
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	38,000	32,000
Capital expenditure that has been authorised by the Management Committee but has not been contracted for	111,000	54,000
	<u>149,000</u>	<u>86,000</u>

Capital expenditure contracted for but not provided for in the financial statements will be fully funded through social housing grant, sale proceeds, recycled capital grants fund, committed loan facilities and reserves.

20. PENSIONS OBLIGATIONS

The staff of the association belong to the London & Quadrant Housing Trust retirement benefits scheme. It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers. Contributions are calculated as a percentage of pensionable salaries of the employees determined in accordance with actuarial advice.

The actual pension cost charged to the income and expenditure account is based on spreading the cost of the pension over the service life of the employees.

The results and assumptions of the most recent actuarial valuation of the scheme are as follows:

Valuation date	1 April 2004
Valuation method	projected unit
Value of assets	£25.28million
Funding level for accrued benefits	60.5%
Investment return per annum	5%
Salary scale increases per annum	4%
Pension increases per annum	3%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The pension contributions payable by Tower Homes during the accounting period were equal to 15.5% (2004: 15.5%) of pensionable salary for the accounting period as recommended by the actuary. Surpluses and deficits are spread over employees' future service lives, and the pensions charge recorded by Tower Homes during the accounting period was equal to the contributions payable. The valuation revealed a shortfall of assets compared with the value of liabilities of £17.6 million.

21 LEGISLATIVE PROVISIONS

Tower Homes Ltd. is incorporated under the Industrial & Provident Societies Act 1965 with the reference 23731R and with the Housing Corporation under reference SL3364.

22. PARENT UNDERTAKING

Tower Homes Ltd.'s parent undertaking is London & Quadrant Housing Trust, a registered social landlord with charitable objectives. The consolidated accounts of this registered social landlord are available to the public and may be obtained from Osborn House, Osborn Terrace, London SE3 9DR.