AFFINITY SUTTON CAPITAL MARKETS PLC

(Incorporated in England with limited liability under the Companies Act 1985, registered number 6678086)

£250,000,000 5.981 per cent. Secured Bonds due 2038

Issue Price: 100 per cent.

The £250,000,000 5.981 per cent. Secured Bonds due 2038 (the **Bonds**) are issued by Affinity Sutton Capital Markets plc (the **Issuer**).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive)**.

An investment in the Bonds involves certain risks. For a discussion of these risks see "*Risk Factors*".

Subject as set out below, the net proceeds from the issue of the Bonds will be advanced by the Issuer to Affinity Sutton Funding Limited (the **Group Borrower**) pursuant to a Loan Agreement between the Group Borrower and the Issuer to be dated on or around the Issue Date (the **Loan Agreement**) and the Group Borrower will in turn on-lend such funds to Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited (the **Original Borrowers** and, together with such other members of the Affinity Sutton Group to which the Group Borrower may on-lend the proceeds of the Loan Agreement in accordance with the terms thereof, the **Borrowers**) pursuant to Intra-group Facility Agreements made between the Group Borrower and each of the Borrowers to be applied in the achievement of the relevant Borrower's objects. In the event that insufficient security is granted by the Borrowers in favour of the Issuer on the Issue Date to enable the Group Borrower to comply with the Asset Cover Tests (as defined in the Loan Agreement), all or part of the issue proceeds (the **Retained Proceeds**) shall be retained in a charged account (the **Initial Cash Security Account**) of the Issuer and shall be advanced to the Group Borrower pursuant to the Loan Agreement if, and only to the extent that, the Group Borrower will, following any such advance, be in compliance with the Asset Cover Tests

Interest on the Bonds is payable semi-annually in arrear on 17th March and 17th September in each year at the rate of 5.981 per cent. per annum, commencing on 17th March, 2009, as described in Condition 7 (*Interest*). Payments of principal of, and interest on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes unless required by law. In the event that any such withholding or deduction is so required, the Issuer may opt to gross up payments due to the Bondholders in respect thereof as described in Condition 10 (*Taxation*).

The Bonds may be redeemed at any time upon the prepayment by the Group Borrower of the loan (the **Loan**) in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the yield on the relevant outstanding sterling bonds having the nearest maturity date to that of the Bonds issued by the European Investment Bank, together with accrued interest (or, in respect of a prepayment of the Loan following an event of default thereunder, at their principal amount, together with accrued interest). The Bonds will also be redeemed in full at their principal amount, plus accrued interest, in the event that the Loan becomes repayable as a result of an ASFL Default (as defined in the Loan Agreement) or any withholding or deduction on account of United Kingdom taxes is required and the Issuer has not opted to pay (or having so opted to pay has notified the Bond Trustee of its intention to cease to pay) additional amounts in respect of such withholding or deduction.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 17th September, 2038 (the **Maturity Date**).

It is expected that the Bonds will be rated Aa2 by Moody's Investors Service, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Bonds will be issued in denominations of £50,000 and integral multiples of £1,000 in excess thereof.

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about 17th September, 2008 (the **Closing Date**) with a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after 27th October, 2008 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*".

Arranger and Dealer

RBC Capital Markets

The date of this Offering Circular is 12th September, 2008.

This Offering Circular comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the *Prospectus Directive*).

The Issuer (the *Responsible Person*) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of the Group Parent, the Group Borrower and the Original Borrowers accepts responsibility for the information contained in the section "*Description of the Affinity Sutton Group*" and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case) the information contained in the section "*Description of the Affinity Sutton Group*" is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Valuers accept responsibility for the information contained in the section "*Valuation Report*" and, to the best of their knowledge (having taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither Royal Bank of Canada Europe Limited (the Dealer) nor the Bond Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealer or the Bond Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Bonds. Neither the Dealer nor the Bond Trustee accepts any liability in relation to the information contained in this Offering Circular.

No person is or has been authorised by the Issuer or the Bond Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Dealer or the Bond Trustee.

To the fullest extent permitted by law, the Dealer does not accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by it or on its behalf in connection with the Issuer, the Group Parent, the Group Borrower, the Original Borrowers or the issue and offering of the Bonds. The Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Dealer or the Bond Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Group Borrower and the Borrowers. Neither this Offering Circular nor any other information supplied in connection with the Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Dealer or the Bond Trustee to any person to subscribe for or to purchase the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Dealer and the Bond Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealer or the Bond Trustee which is intended to permit a public offering of any Bonds or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Bonds in the United States, the European Economic Area (including the United Kingdom) and Canada (see "*Subscription and Sale*").

All references in this Offering Circular to *Sterling* and £ refer to pounds sterling.

In connection with the issue of the Bonds, Royal Bank of Canada Europe Limited as Stabilising Manager (the *Stabilising Manager*) (or persons acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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OVERVIEW

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular.

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Bonds should be based on a consideration of this Offering Circular as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Responsible Person in any such Member State solely on the basis of this overview, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to the information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated.

Words and expressions defined in "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*" and "*Terms and Conditions of the Bonds*" shall have the same meanings in this overview.

Issuer:	Affinity Sutton Capital Markets plc
Description of the Bonds:	£250,000,000 5.981 per cent. Secured Bonds due 2038 (the **Bonds**) to be issued by the Issuer on 17th September, 2008 (the **Issue Date**).
Use of Proceeds:	The net proceeds of the issue of the Bonds will be applied by the Issuer to provide finance for certain members of the Affinity Sutton Group. Subject as described in *"Initial Cash Security Account"* below, the Issuer will lend such proceeds to the Group Borrower pursuant to the Loan Agreement which will in turn on-lend such funds to any of the Borrowers under the Intra-group Facility Agreements to be applied in the achievement of the relevant Borrowers' objects. Each of the Borrowers will act as a Guarantor under a Security Agreement pursuant to which each Guarantor will guarantee the performance of the obligations of the Group Borrower under the Loan Agreement on an immediate recourse basis. The Loan Agreement and the assets comprising the Issuer Security (see *"Issuer Security"* below) have characteristics that demonstrate capacity to produce funds to service the payments due and payable on the Bonds.
Issue Price:	100 per cent.
Form of Bonds:	The Bonds will be issued in bearer form as described in *"Form of the Bonds and Summary of Provisions relating to*

the Bonds while in Global Form".

Interest:	The Bonds will bear interest at a fixed rate of 5.981 per cent. per annum payable semi-annually in arrear on 17th March and 17th September of each year, from (and including) the Issue Date to (but excluding) 17th September, 2038 (the **Maturity Date**), subject to adjustment in accordance with Condition 8.5 (*Payment Day*) (each, an **Interest Payment Date**).
Final Redemption:	Unless previously redeemed or purchased and cancelled in accordance with Condition 9 (*Redemption and Purchase*), the Bonds will be redeemed at their principal amount on the Maturity Date.
Early Redemption:	Subject as described in "*Mandatory Early Redemption*" below, the Bonds may be redeemed at any time prior to the Maturity Date upon the optional prepayment by the Group Borrower of the loan (the **Loan**) in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the yield on the relevant outstanding sterling bonds having the nearest maturity date to that of the Bonds issued by the European Investment Bank, together with accrued interest. In addition, the Bonds shall be redeemed in full upon the mandatory prepayment of the Loan following one or more of the Borrowers ceasing to be a Registered Social Landlord. Any such redemption shall also be at the higher of the principal amount of the Bonds and an amount calculated by reference to the yield on the relevant outstanding sterling bonds having the nearest maturity date to that of the Bonds issued by the European Investment Bank, together with accrued interest.
Early Redemption for Tax Reasons:	The Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, together with any interest accrued, if as a result of any actual or proposed change in tax law, the Issuer determines that it would be required to make a withholding or deduction on account of tax in respect of payments to be made by it in respect of the Bonds and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (*No obligation to pay additional amounts*) or, having so opted, notifies the Bond Trustee of its intention to cease paying such additional amounts.
Mandatory Early Redemption:	If the Loan becomes repayable as a result of an ASFL Default the Bonds shall be redeemed in full at their principal amount, plus accrued interest. An **ASFL Default** includes non-payment, breach of other obligations, cross-acceleration, winding-up, cessation of business, insolvency, unlawfulness and breach of certain asset cover ratios, in each case as set out in Clause 14 (*ASFL*

Default) of the Loan Agreement and described further in "*Description of the Loan Agreement*".

Events of Default: Following an Event of Default the Bond Trustee may, and if so requested by the holders of at least one-fifth in nominal amount of the Bonds then outstanding shall (subject to it being secured and/or indemnified to its satisfaction and, upon certain events, the Bond Trustee having certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer and the Bonds shall become immediately due and repayable.

The Events of Default include, *inter alia*, non-payment of any principal and interest due in respect of the Bonds, failure of the Issuer to perform or observe any of its other obligations under the Conditions and the Bond Trust Deed, insolvency, unlawfulness and default, or non-payment, in respect of other indebtedness in an aggregate amount equal to or in excess of £15,000,000 (or its equivalent).

Issuer Security: The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the following (the **Issuer Security**):

(a) an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Security Trust Deed, the Security Agreements, the Agency Agreement and the Account Agreement, in each case to the extent they relate to the Bonds;

(b) a charge by way of first fixed charge over all moneys from time to time standing to the credit of the Transaction Account, the Cash Security Account and the Initial Cash Security Account and all debts represented thereby; and

(c) a charge by way of first fixed charge over all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds.

Initial Cash Security Account: In the event that insufficient security is granted by the Borrowers in favour of the Issuer on the Issue Date to enable the Group Borrower to comply with the Asset Cover Tests (as defined in the Loan Agreement), all or part of the issue proceeds (the **Retained Proceeds**) shall be retained in a charged account (the **Initial Cash Security Account**) of the Issuer and shall be advanced to the Group Borrower pursuant to the Loan Agreement if, and only to the extent that, the Group Borrower will, following any such advance, be in compliance with the Asset Cover Tests.

The Initial Cash Security Account shall accrue interest at a rate to be agreed from time to time between the Issuer and the Account Bank in accordance with the Account Agreement. Pursuant to the Loan Agreement, the Group Borrower shall pay to the Issuer a commitment fee in respect of the Retained Proceeds on each Loan Payment Date in an amount equal to (a) the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (b) the interest received from the Group Borrower under the Loan Agreement on such Loan Payment Date and any interest received by the Issuer in respect of the Retained Proceeds from the Account Bank pursuant to the Account Agreement.

Guarantee and Underlying Security: The Group Borrower's obligations in respect of the Loan Agreement are secured pursuant to the Security Trust Deed and the Security Agreements in favour of the Issuer, the rights, title and interest in respect of which the Issuer has secured in favour of the Bond Trustee pursuant to the Bond Trust Deed.

Pursuant to the Security Trust Deed, each of the Borrowers has irrevocably and unconditionally:

(a) guaranteed to the Issuer the punctual performance by the Group Borrower of all its obligations under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements;

(b) undertaken with the Issuer that, whenever the Group Borrower does not pay any amount when due under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements, it must, immediately on demand by the Security Agent, pay that amount as if it were the principal obligor; and

(c) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the loss or liability under the indemnity will be equal to the amount the Issuer would otherwise have been entitled to recover.

In addition, each of the Borrowers has:

(a) created fixed security in favour of the Security Agent for the benefit of itself and, *inter alios*, the Issuer over certain of its properties, fixed plant and machinery, benefits in respect of the Insurances and benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with its business so far as it relates to the

Security Assets; and

(b) assigned to the Security Agent for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to certain agreements and covenants held by such Borrower,

together, the **Underlying Security**.

See "*Description of the Security Agreements and the Security Trust Deed*" below.

Priorities of Payments:

Prior to the enforcement of the Issuer Security, the Issuer shall apply the monies standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the **Pre-enforcement Priority of Payment**):

(a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);

(b) second, in payment of any unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;

(c) third, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;

(d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds; and

(e) fifth, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement.

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Cash Security Account and the Initial Cash Security Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the **Post-enforcement Priority of Payment**):

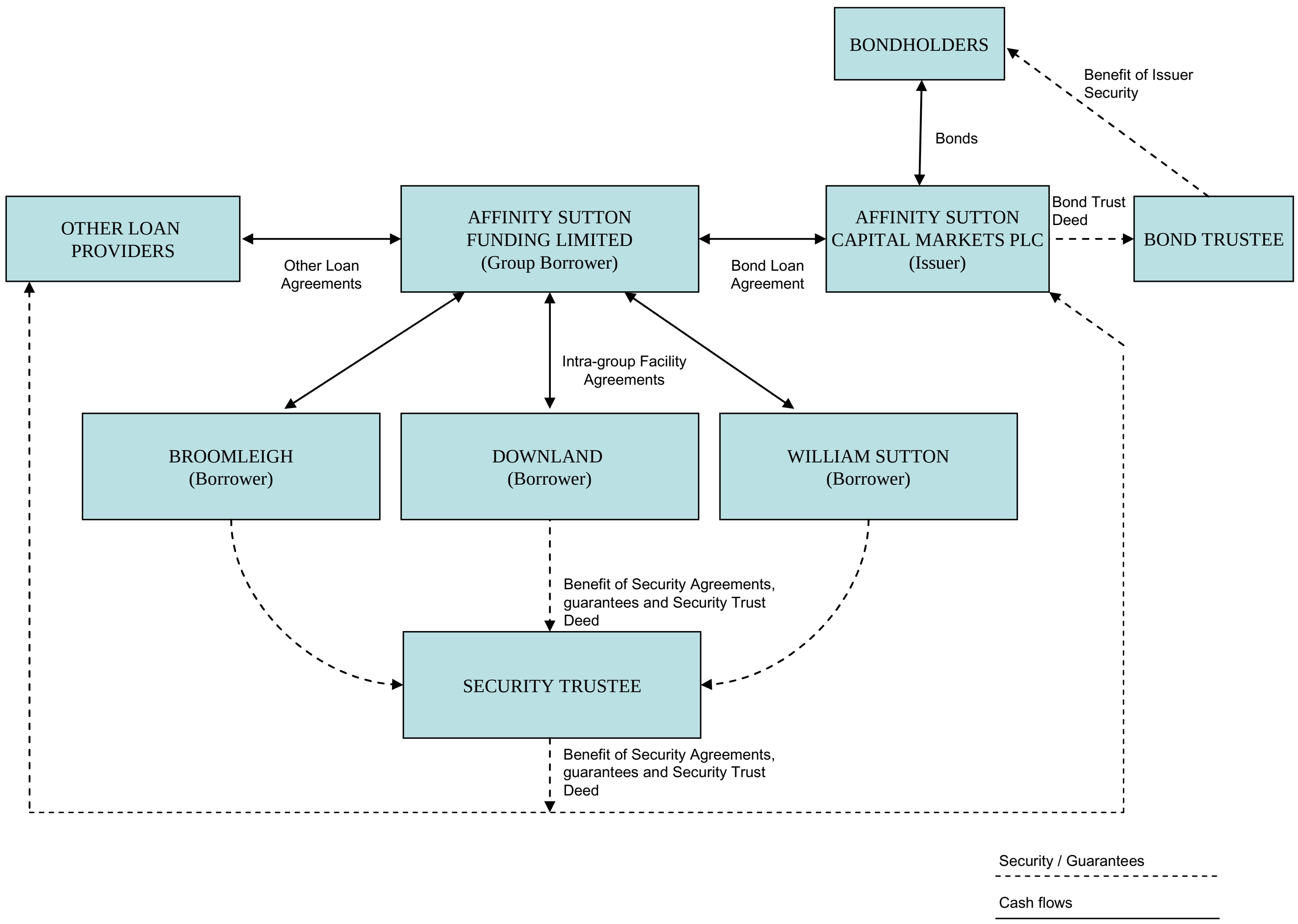
(a) first, in payment of the fees, costs, charges, expenses and liabilities incurred by the Bond Trustee or any receiver (insofar as they relate to the Bonds); and

(b) thereafter, in accordance with the Pre-enforcement Priority of Payments.

Status of the Bonds:	The Bonds will constitute direct, secured obligations of the Issuer and will rank *pari passu* among themselves.
Covenants:	Pursuant to Condition 6 (*Covenants*), the Issuer has covenanted not to engage in any activity or do anything other than carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the members of the Affinity Sutton Group, without the consent of the Bond Trustee. The Issuer has also covenanted to deliver to the Bond Trustee and, upon request by a Bondholder to the Issuer, to make available to any of the Bondholders, a copy of the Compliance Certificate received from the Group Borrower pursuant to the terms of the Loan Agreement and a copy of the annual reports of the Group Borrower and each of the Borrowers following publication of the same. In addition to the rights of Bondholders to convene a meeting pursuant to Condition 17 (*Meetings of Bondholders, Modification and Waiver*), at the request of the requisite majority of the Bondholders, the Issuer shall hold a meeting of the Bondholders to discuss the financial position of the Issuer and the Affinity Sutton Group, provided that the Issuer shall not be required to hold any such meeting more than once in any calendar year.
Taxation:	All payments in respect of the Bonds will be made without withholding or deduction for or on account of any taxes unless a tax deduction is required by law. In the event that any such withholding or deduction is required, the Issuer may at its option, but will not be obliged to, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. In the event that the Issuer does not opt to pay such additional amounts the Bonds shall be redeemed at their principal amount, together with any accrued interest, in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*).
Meetings of Bondholders:	The Terms and Conditions of the Bonds and the Bond Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "*Risk Factors*" below and include factors which may

	affect the Issuer, the Group Borrower and/or the Borrowers' ability to fulfil their obligations under the Bonds, the Loan Agreement and the Intra-group Facility Agreements and the Security Agreements respectively, factors which are material for the purpose of assessing the market risks associated with the Bonds, risks relating to the security for the Bonds and risks relating the market generally. See "*Risk Factors*" below.
Rating:	It is expected that the Bonds will be rated Aa2 by Moody's Investors Service, Inc.
Listing and admission to trading:	Application has been made to the UK Listing Authority for Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the London Stock Exchange's regulated market.
Arranger:	Royal Bank of Canada Europe Limited
Dealer:	Royal Bank of Canada Europe Limited
Principal Paying Agent:	Royal Bank of Canada, London Branch
Account Bank:	NatWest Bank plc
Bond Trustee:	Prudential Trustee Company Limited
Group Borrower:	Affinity Sutton Funding Limited
Borrowers and Guarantors:	Broomleigh Housing Association Limited; Downland Housing Association Limited; and William Sutton Housing Association Limited, and such other members of the Affinity Sutton Group to which the Group Borrower may on-lend the proceeds of the Loan Agreement in accordance with the terms thereof.
Security Agent:	Prudential Trustee Company Limited
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Bonds in the United States, the European Economic Area (including the United Kingdom) and Canada, see "*Subscription and Sale*".
Governing Law:	The Bonds will be governed by, and construed in accordance with, English law.

STRUCTURE DIAGRAM OF TRANSACTION



RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds issued are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. If any of the following risks actually materialise, the Issuer's business, financial condition and prospects could be materially and adversely affected. No assurance can be given that prospective Bondholders will receive full and/or timely payment of interest and principal or ultimate recovery in relation to the Bonds.

Factors which may affect the Issuer's ability to fulfil its obligations under the Bonds

Special Purpose Vehicle Issuer: The Issuer is a special purpose finance entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds. As such the Issuer is entirely dependent upon receipt of funds received from the Group Borrower or the Borrowers in order to fulfil its obligations under the Bonds.

Credit Risk: The Issuer, and therefore payments by the Issuer in respect of the Bonds, will be subject to the credit risk of the Group Borrower and the Borrowers. The Issuer will be subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the Group Borrower in respect of the Loan Agreement. However, each of the Borrowers has guaranteed the obligations of the Group Borrower to the Issuer under the Loan Agreement and it is envisaged that in the event that a Borrower is unable to make a payment under the Intra-group Facility Agreement to which it is a party (pursuant to which the Group Borrower has on-lent part of the proceeds of the Loan Agreement) such payment will be made by the other Borrowers pursuant to the terms of their respective Security Agreements.

Effect of Losses on Loan on Interest Payments and Repayments on the Bonds: There can be no assurance that the levels or timeliness of payments of collections received in respect of the Loan will be adequate to ensure fulfilment of the Issuer's obligations in respect of the Bonds on each Interest Payment Date or on the Maturity Date. In addition, a default on the Loan could ultimately result in its enforcement, a claim being made by the Issuer under the Security Agreements and, if payment is not made thereunder on a timely basis, the enforcement of the Underlying Security. The proceeds of any such enforcement may be insufficient to cover the full amount due from the Group Borrower resulting in a shortfall in funds available to repay the Bonds. However, it is expected that in the event that the Group Borrower's payment obligations under the Loan are not fulfilled, the Borrowers shall fulfil such obligations without the need to enforce the Underlying Security or seek recourse through the courts.

Factors which may affect the Group Borrower's ability to fulfil its obligations under the Loan Agreement

Credit Risk: The Group Borrower acts as a financing vehicle for the Affinity Sutton Group and does not own any social housing assets. The proceeds of the Loan will be on-lent by the Group Borrower to the Borrowers pursuant to the Intra-group Facility Agreements and the payments to be made by the Group Borrower to the Issuer under the Loan Agreement will be dependent in part upon the Group Borrower receiving from the Borrowers the payments due to it under the Intra-group Facility Agreements. The Group Borrower's ability to satisfy its obligations under the Loan Agreement is therefore dependent in part on the credit risk of each of the Borrowers.

Capital Resources & Treasury Risk: To mitigate liquidity risk and augment its capital resources, the Group Borrower relies on financing through committed lines of credit from major banks, building societies and other financing vehicles (including the Issuer, which itself is funded through the capital markets), and through revolving debt (which may either be secured or unsecured) and the Group Borrower will on-lend such financing to the Borrowers. The Group Borrower is therefore dependent on its ability to access and maintain these sources of financing.

The Group Borrower is also subject to interest rate risk with respect to its variable rate borrowing. The Affinity Sutton Group's treasury function seeks to mitigate interest rate risk through actions that support the Affinity Sutton Group's interest rate management policy and that comply with applicable regulatory guidelines.

Factors which may affect the Borrowers' ability to fulfil their obligations under the Intra-group Facility Agreements and the Security Agreements

Rental Income and Housing Benefit: A proportion of the rent received by each Borrower is derived from housing benefit payable by the local authority in whose area the property is situated. If there is a reduction or termination by the government of housing benefit, then this may accordingly have an adverse impact on the payment of rent, as the tenants would have to pay a higher proportion of the rent themselves. Payments of housing benefit by local authorities may be delayed as a result of, among other things, the need to establish a new claimant's entitlement thereto, the failure of the claimant to regularly pay rent, an overriding interest of the claimant not to make payments direct to the landlord, industrial action or otherwise. In such circumstances, the non payment, or any delay in payment, could affect the ability of a Borrower to meet its payment obligations on a timely basis under the Intra-group Facility Agreement to which it is a party.

Pursuant to the Welfare Reform Act 2007, the UK government introduced a reform of housing benefits for private tenants. Under this reform, a local housing allowance, which was introduced nationally on 7 April 2008, is paid directly to individual claimants in most cases, as opposed to the previous system where payments were usually made to landlords through local authorities. As a result of this reform, the Borrowers are exposed to greater risk that private tenants on local housing allowance will fail to pay rent in full or fail to pay rent in full on a timely basis, which creates an increased liquidity risk for the Borrowers. The UK government does not currently plan to extend the local housing allowance to social housing, though it aims to encourage social housing tenants to take greater personal responsibility for managing their own rent payments. If the local housing allowance was extended to social housing, the Borrowers would also be exposed to a greater risk that the tenants of the social housing would fail to pay rent in full or would fail to pay rent in full on a timely basis which would also create a greater liquidity risk for the Borrowers.

There are government restrictions on the number of rent increases which can be applied annually which act as a further constraint on the Borrowers' revenues.

Non-Payment Risk: Some of the tenants of the Borrowers' properties do not receive housing benefit and are therefore personally responsible for the rental payments on the relevant occupied properties. In the event that any such tenants fail to pay rent in full or fail to pay rent in full on a timely basis, this could also affect the ability of the relevant Borrower to meet its payment obligations on a timely basis under the Intra-group Facility Agreement to which it is a party.

Other Income Risk: The Borrowers also generate revenue from their housing for sale programmes (which includes shared ownership sales and outright sales) and are, therefore, exposed to market risk, in relation to housing for sale, including both demand and pricing risks.

Social Housing Grant Risk: The Borrowers receive social housing grant funding through the Housing Corporation, the government agency that funds new affordable homes and regulates housing associations in England. Due to the nature of grant funding, there is a risk that the subsidy will reduce over time, a risk that future grant funding could be withdrawn if the Borrowers fail to comply with the Housing Corporation's regulatory framework or if development performance falls below agreed levels in terms of delivery of its approved development programme and a risk that grant funding may be required to be repaid under certain circumstances. Any such reduction in, withdrawal of or repayment of grant funding could adversely impact the future development of the Borrowers.

Regulatory Risk: The Housing Corporation has powers to intervene in the affairs of registered social landlords that fall into financial or managerial difficulties in order to protect the interests of tenants and to preserve the housing stock of a housing association within the social housing sector and within the regulatory regime of the Housing Corporation, including the power to place a moratorium of 28 days on the financial transactions of an insolvent housing association pending reaching agreement with secured creditors on a solution.

Housing Market & Operational Risk: Residential property investment is subject to varying degrees of market and operational risk. Market risks include the risk of changes to government regulation and planning and tax laws, which might adversely impact the Borrowers' ability to develop land acquired, or the value of its land investments and other building development projects (which in turn may impact on the Borrowers' and the Group Borrower's ability to satisfy any asset cover covenants which they are required to maintain in accordance with any financing documents to which they are a party), increases in interests rates, build cost inflation and the cost of financing and the need to continue to invest in their stock of housing assets held for rent and in their neighbourhoods in order to maintain its stock condition and to guard against neighbourhood decline and stock obsolescence.

Operational risks may result from major systems failure or breaches in systems security (although the Group Borrower and the Borrowers have prepared business continuity plans in order to mitigate against this, they are dependent upon their technologies in order to deliver business processes) and the consequences of theft, fraud, health and safety and environmental issues, natural disaster and acts of terrorism. These events could result in financial loss to the Borrowers and hence the Group Borrower and the Issuer.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Affinity Sutton Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Housing and Regeneration Act: The Housing and Regeneration Act 2008 received Royal Assent on 22 July 2008. Its enactment will, amongst other things, create a new social housing regulator responsible for homes provided by registered social landlords. The National Housing Federation (the **NHF**), which represents English housing associations, was concerned that the Act would grant the Communities Secretary power to influence housing associations to implement government policy over non core housing activities and undermine the independence of housing association board members. The NHF is, however, broadly satisfied that the amendments made to the Act as it passed through the

House of Commons sufficiently reduce the risk of their earlier concern that the regulator's powers would bring housing associations onto the public sector balance sheet.

Pensions Risk: Affinity Sutton Group Limited and its subsidiaries (including each of the Borrowers) participate in six defined benefit schemes among them. Each of these is closed to new entrants except the Social Housing Pensions Scheme (**SHPS**). As at 31 March 2008, the fair value of the assets in the five closed schemes was £99.0 million, compared to the value of their liabilities which was £107.3 million.

SHPS is a multi-employer scheme and it is not possible, in the normal course of events, to identify the share of the underlying assets and liabilities belonging to individual participating employers. The Affinity Sutton Group has limited its employers' contribution to 15 per cent. of pensionable pay.

As with all defined benefit schemes, there is a risk that, in certain circumstances, the employer may be required to make up the shortfall of assets against liabilities.

The most likely events that would result in the need to meet the shortfall are certain forms of re-structuring of the Affinity Sutton Group. For example, a transfer of undertaking could lead to a crystallisation of the net pension liability. However, there are options in respect of the particular legal arrangements for any such re-structuring which the Affinity Sutton Group would consider before undertaking any action that would result in such a crystallisation of liability.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Suitability*:* Prospective purchasers of Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits and the risks of investment in the Bonds and that they consider the suitability of the Bonds as an investment in light of their own circumstances and financial condition.

Liability under the Bonds: The Bonds are obligations of the Issuer only and do not establish any liability or other obligation of any other person mentioned in this Offering Circular.

Interest rate risks*:* The Bonds bear interest at a fixed rate and therefore involve the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Redemption prior to maturity: In the event that the Bonds become repayable prior to maturity either following the Loan becoming repayable as a result of an ASFL Default (which includes, *inter alia*, failure by the Group Borrower to make payments of interest under the Loan Agreement) or an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) or pursuant to Condition 9.3 (*Early Redemption for Tax Reasons*), the Bonds will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Bonds.

Modification, waivers and substitution: The Terms and Conditions of the Bonds and the Bond Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds and the Bond Trust Deed also provide that the Bond Trustee may, without the consent of Bondholders, agree to (i) any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Terms and Conditions, provided, in each case, that the Bond Trustee is of the opinion that to do so would not be materially prejudicial to the interest of Bondholders.

Denominations involve integral multiples: definitive Bonds*:* The Bonds have denominations consisting of a minimum of £50,000 plus one or more higher integral multiples of £1,000. It is possible that the Bonds may be traded in amounts that are not integral multiples of £50,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £50,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to £50,000.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £50,000 may be illiquid and difficult to trade.

Change in Law*:* The structure of the issue of the Bonds, and the ratings which are to be assigned to them, are based on English law, regulatory and administrative practice in effect as at the date of this Offering Circular, and have due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English law, regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom after the date of this Offering Circular.

European Monetary Union: It is possible that, prior to the repayment in full of the Bonds, the United Kingdom may become a participating member state in the European Economic and Monetary Union and that the Euro will become the lawful currency of the United Kingdom. The introduction of the Euro could be accompanied by a volatile interest rate environment which could adversely affect holders of the Bonds. It cannot be said with certainty what effect the adoption of the Euro by the United Kingdom (if it occurs) will have on the holders of the Bonds.

Potential Conflicts of Interest: Each of the Transaction Parties (other than the Issuer) and the Borrowers and their affiliates in the course of each of their respective businesses may provide services to other Transaction Parties and/or Borrowers and to third parties and in the course of the provision of such services it is possible that conflicts of interest may arise between such Transaction Parties and/or Borrowers and their affiliates or between such Transaction Parties and/or Borrowers and their affiliates and such third parties. Each of the Transaction Parties (other than the Issuer) and the Borrowers and their affiliates may provide such services and enter into arrangements with any person without regard to or constraint as a result of any such conflicts of interest arising as a result of it being a Transaction Party or a Borrower.

Taxation: Under the Terms and Conditions of the Bonds (see Condition 10 (*Taxation*) below), the Issuer may, but will not be obliged to, gross up payments in respect of the Bonds if any deduction or withholding on account of tax is imposed. In the event that any deduction or withholding on account of tax is imposed and the Issuer does not opt to gross up payments in respect of the Bonds (or, if having previously opted to gross up notifies the Bond Trustee and the Bondholders of its intention to cease grossing up payments in respect of the Bonds), the Bonds will be redeemed in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*). In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Bonds. In addition, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest

Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof. The Bondholders will therefore bear the risk of any such withholding or deduction in respect of the period from the previous Interest Payment Date to the date of redemption.

The Loan Agreement and the Intra-group Facility Agreements require that if any withholding or deduction is required by law to be made by the Group Borrower or any Borrower thereunder, the amount of the payment due from the Group Borrower or such Borrower, as the case may be, shall be increased to an amount which (after making the tax deduction) leaves an amount equal to the payment which would have been due if no tax deduction had been required.

For a description of the current United Kingdom law and practice relating to withholding tax treatment of the Bonds, see below in "*Taxation*".

EU Savings Directive: Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Exchange rate risks and exchange controls*:* The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments: The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Risks Relating to the Security of the Bonds

Considerations relating to the Issuer Security and the Underlying Security: The Bonds will be secured by the Issuer Security granted in favour of the Bond Trustee for the benefit of itself and the Bondholders and the Secured Parties. Such Issuer Security will include security over the Loan Agreement, the Security Trust Deed and the Security Agreements. The Security Agreements each include a guarantee by the Borrower which is a party thereto in respect of the Group Borrower's obligations under the Loan Agreement and the Underlying Security created pursuant to the Security Trust Deed and the Security Agreements includes first fixed charges and assignments over the property and rights set out in the relevant Security Agreement given by each Borrower in favour of the Security Agent for the benefit of itself and, *inter alios*, the Issuer.

The validity of any security given by a Borrower in connection with additions and substitutions of Charged Properties may depend on the solvency of the relevant Borrower at the time of the grant.

Change of apportionment basis of Charged Properties: The Loan Agreement provides that the properties over which security is to be apportioned pursuant to the Security Trust Deed (the **Charged Properties**) is to be apportioned on a "Numerical Apportionment Basis". The Security Trust Deed provides that, where Numerical Apportionment Basis is specified as the basis for apportionment, a specific number of units within the portfolio of Charged Properties is designated to each Beneficiary as agreed between the Group Borrower and such Beneficiary (in the case of the Loan Agreement, the Issuer). Where Numerical Apportionment Basis is specified as the apportionment basis, a Beneficiary in respect thereof is entitled to change its basis of apportionment to "Specific Apportionment Basis" only in the limited circumstances and in accordance with the procedures specified in the Security Trust Deed. For so long as a Beneficiary's security is apportioned on a Numerical Apportionment Basis, the value of its security will be determined by reference to a percentage of the total value of the portfolio of Charged Properties that are apportioned on a Numerical Apportionment Basis. In addition, in the event that following an enforcement of security a Beneficiary requests a specific apportionment of those Charged Properties allocated to them on a Numerical Apportionment Basis in circumstances where the other Beneficiaries have elected to continue with an apportionment on a Numerical Apportionment Basis, then the Security Agent will be required to appoint a valuer to propose an allocation of the properties and this may result in a timing delay in recovery.

Merger of Borrowers: A Borrower may merge or amalgamate with another entity at any time without the consent of the Issuer. In such circumstances, if following any such merger or amalgamation, the credit risk of the Borrower or any successor entity created thereby were weaker than that of the Borrower prior to such merger or amalgamation, the Issuer would become subject to this increased credit risk. Other members of the Affinity Sutton Group (including, for the avoidance of doubt, the Group Parent) may also merge or amalgamate with another entity or entities at any time without the consent of the Issuer (other than, in the case of the Group Borrower, the Issuer's consent to the transfer or novation of the Loan Agreement). In both cases, however, any such merger or amalgamation would only be entered into with the approval of the Group Parent. The Group Borrower and the Issuer are both subsidiaries of the Group Parent and, as such, the Issuer expects that their interests will be aligned in respect of any proposed merger or amalgamation.

In order to improve the operation of the Affinity Sutton Group and increase its efficiency, the Group Parent is promoting the consolidation of the Affinity Sutton Group's structure through the amalgamation of the Group Parent with the three Original Borrowers (Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited). This consolidation will, if implemented, combine the three charitable Industrial and Provident Societies with the Group Parent to create a single, charitable, asset-holding Industrial and Provident Society parent for the Affinity Sutton Group. The boards of the Original Borrowers are currently considering the proposals, and in due course the proposals will also be considered by the shareholders and the bank lenders to the Original Borrowers. If their agreement is given, the consent of the Housing Corporation (or its successor body) as regulator will be required before the consolidation can take effect. In order to obtain Housing Corporation consent tenants and other residents of the Original Borrowers will be consulted. It is anticipated that the regulator will monitor the progress of the consolidation proposals and take action as required to ensure that stakeholder interests are protected. It is also a proper part of the responsibilities of each of the Original Borrowers that their boards should review the benefits and disadvantages of these proposals and all the options available to them. As with any reorganisation project, there is a risk that the timing of the consolidation process is longer than expected, that the resulting structure is different from the planned structure outlined above, and/or that the consolidation process is not completed.

Additions of new Borrowers and Resignation of Borrowers: The Group Borrower may at any time enter into an Intra-group Facility Agreement with a new Borrower, provided that such new borrower is a charity and a Registered Social Landlord, such new borrower enters into a Security Agreement in substantially the same terms as those entered into by the Original Borrowers and Moody's or any successor thereto which has assigned a solicited rating of the Bonds at such time has confirmed that the addition of such new borrower would not adversely affect the then current rating of the Bonds. In such circumstances, if the new Borrower's credit risk were weaker than that of the rest of the Borrowers, the Issuer would become subject to increased credit risk in respect of the Borrowers as a whole. A Borrower may, upon request, cease to be a Borrower at any time provided that the resignation of such Borrower will not result in a breach of the asset cover ratios set out in the Loan Agreement and Moody's or any successor thereto which has assigned a solicited rating of the Bonds at such time has confirmed that the resignation of such Borrower would not adversely affect the then current rating of the Bonds.

The Issuer's ability to meet its obligations under the Bonds after enforcement under the Loan*:* Following default by the Group Borrower, and in the event that the Borrowers have not satisfied the obligations of the Group Borrower pursuant to the Security Agreements, the Security Agent will be entitled to call for payments of any unpaid sums by the Group Borrower under and in accordance with the terms of the Security Agreements. If the Guarantors do not make payment of amounts due to the Issuer pursuant to the Security Agreements, the Security Agent may enforce the Underlying Security in respect of the Borrowers and appoint a Receiver in respect of the defaulting Borrower pursuant to its powers under the Security Trust Deed.

The Issuer's ability to continue to pay principal and interest on the Bonds following default by the Group Borrower under the Loan is dependent upon the ability of the Issuer to receive through the Security Agreements, or from the Security Agent pursuant to the collection of rental income or a disposal of the Underlying Security, sufficient funds to make such payment.

Fixed charges may take effect under English law as floating charges: Pursuant to the Bond Trust Deed, the Issuer has purported to grant fixed charges over, amongst other things, all rights and benefits under the Transaction Account, the Cash Security Account and the Initial Cash Security Account. The law of England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than assignment of security) may take effect under English law as floating charges only if, for example, it is determined that the Bond Trustee does not exert sufficient control over the charged assets for the security to be said to "fix" over those assets. If the charges take effect as floating charges instead of fixed charges, then the claims of the Bond Trustee will be subject to claims which are given priority over a floating charge by law, including, amongst other things, prior charges, certain subsequent charges, the expenses of any winding up or administration and the claims of preferential creditors.

Claims of Creditors of the Issuer other than Secured Parties: Under English law, any creditor (who has not entered into non-petition clauses) would (save where an administrator has been appointed) be able to commence insolvency or winding up proceedings against the Issuer in respect of any unpaid debt. However, the Issuer will undertake not to incur any debt or liability or enter into any other transaction other than as provided in, or contemplated by, the Transaction Documents.

Mortgagee in Possession Liability: There is a risk that the Security Agent may be deemed to be a mortgagee in possession if it physically enters into possession of a Charged Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to tenants requiring them to pay rents to the Security Agent. The consequence of being a mortgagee in possession would be that the Security Agent may be obliged to account to the relevant Borrower for the income obtained from the Charged Property, be liable for any damage to the Charged Property, have a limited liability to repair the Charged Property and, in certain circumstances, may be obliged to make improvements or incur financial liabilities in respect of the Charged Property. A mortgagee in possession may also be liable to a tenant for any mis-management of the relevant property and may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), the liabilities of a property owner. Pursuant to Clause 16 of the Loan Agreement, the Group Borrower is required to indemnify the Security Agent on demand against any loss or liability incurred in connection with the Loan Agreement and pursuant to Clause 15 of the Security Trust Deed the Group Borrower is required to indemnify the Security Agent on demand against all liabilities and expenses properly incurred by it in the execution of its powers and trusts contained in the Security Trust Deed and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to the Security Trust Deed.

Risks Relating to the Market Generally

Potential Limited Liquidity: The Bonds may not have an established market when issued. There can be no assurance of a secondary market for the Bonds or the continued liquidity of such market if one develops. The development or continued liquidity of any secondary market for the Bonds will be affected by a number of factors such as the state of credit markets in general and the creditworthiness of the Affinity Sutton Group, as well as other factors such as the time remaining to the maturity of the Bonds.

Credit ratings may not reflect all risks: It is expected that the Bonds will be rated Aa2 by Moody's Investors Service, Inc. This rating may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

FORM OF THE BONDS AND SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Form of the Bonds

Form, Exchange and Payments

The Bonds will be in bearer form and will be initially issued in the form of a temporary global bond (a **Temporary Global Bond**) which will be delivered on or prior to the issue date of the Bonds to a common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

Whilst the Bonds are represented by the Temporary Global Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Bond) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Global Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after the Temporary Global Bond is issued, interests in the Temporary Global Bond will be exchangeable (free of charge) upon a request as described therein for interests in a permanent global bond (the **Permanent Global Bond** and together with the Temporary Global Bond, the **Global Bonds**), against certification of beneficial ownership as described above unless such certification has already been given. The holder of the Temporary Global Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Bond for an interest in the Permanent Global Bond is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on the Permanent Global Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Bond) without any requirement for certification.

The Permanent Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 12) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Permanent Global Bond in definitive form. The Issuer will promptly give notice to Bondholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Legend concerning United States persons

The following legend will appear on all Bonds and on all interest coupons relating to the Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on the Bonds or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of the Bonds or interest coupons.

Summary of Provisions relating to the Bonds while in Global Form

Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders (which includes, for this purpose, any Compliance Certificate or annual reports required to be made available pursuant to a request by any of the Bondholders pursuant to Condition 6.2 (*Information Covenants*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 15 (*Notices*). Any such notice shall be deemed to have been given to the holders of the Bonds on the second day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to be given by any Bondholder may be given to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Accountholders

For so long as any of the Bonds is represented by a Global Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Bonds (the **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such nominal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Bonds, for which purpose the bearer of the relevant Global Bond shall be treated as the holder of such nominal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions **Bondholder** and **holder of Bonds** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Bonds as aforesaid, the Bond Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Bonds which are represented by a Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 11 (*Prescription*)).

Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

TERMS AND CONDITIONS OF THE BONDS

The following are the Terms and Conditions of the Bonds which will be incorporated by reference into each Bond in definitive form (if issued).

The £250,000,000 5.981 per cent. Secured Bonds due 2038 (the **Bonds**) of Affinity Sutton Capital Markets plc (the **Issuer**) are constituted by a Bond Trust Deed (such Bond Trust Deed as modified and/or supplemented and/or restated from time to time, the **Bond Trust Deed**) dated 17th September, 2008 made between the Issuer and Prudential Trustee Company Limited (the **Bond Trustee**, which expression shall include any successor as Bond Trustee) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The Bonds have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 17th September, 2008 and made between the Issuer, the Bond Trustee, Royal Bank of Canada, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Copies of the Bond Trust Deed, the Agency Agreement, the Loan Agreement, the Security Agreements and the Security Trust Deed are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the date of the issue of the Bonds at Laurence Pountney Hill, London EC4R 0HH and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Bond Trust Deed and the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Bond Trust Deed, which includes the form of the Bonds.

1. DEFINITIONS

Words and expressions defined in the Bond Trust Deed or the Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

In these Conditions:

Account Agreement means the Account Agreement dated 17th September, 2008 and made between the Issuer, the Bond Trustee and the Account Bank, as amended and/or supplemented and/or restated from time to time;

Account Bank means NatWest Bank plc as account bank pursuant to the Account Agreement or any successor account bank appointed thereunder;

Affinity Sutton Group means Affinity Sutton Group Limited, the Group Borrower, the Borrowers and any other present or future, direct or indirect, subsidiaries of Affinity Sutton Group Limited (which includes, for the avoidance of doubt, any entity with which Affinity Sutton Group Limited may merge or be consolidated with at any time);

ASFL Default has the meaning given to it in the Loan Agreement;

Borrowers means Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited, and such other members of the Affinity Sutton Group to which the Group Borrower may on-lend the proceeds of the Loan Agreement in accordance with the terms thereof;

Cash Security Account means the account of the Issuer set up with the Account Bank in respect of the Charged Cash in accordance with the Account Agreement;

Charged Cash means, at any time, the amounts standing to the credit of the Cash Security Account at such time for the purpose of compliance by the Group Borrower with the Asset Cover Tests (as defined in the Loan Agreement) pursuant to the Loan Agreement;

Compliance Certificate has the meaning given to it in the Loan Agreement;

Group Borrower means Affinity Sutton Funding Limited, as borrower under the Loan Agreement;

Initial Cash Security Account means the account of the Issuer set up with the Account Bank in respect of the Retained Proceeds in accordance with the Account Agreement;

Issuer Charged Property has the meaning given to it in Condition 4;

Issuer Security has the meaning given to it in Condition 4;

Loan means the loan made by the Issuer to the Group Borrower pursuant to the terms of the Loan Agreement;

Loan Agreement means the Loan Agreement dated on or about the date of issue of the Bonds between the Issuer, the Group Borrower and the Security Agent;

Loan Payment Day means a day on which principal or interest in respect of the Loan is due and payable by the Group Borrower to the Issuer in accordance with the terms of the Loan Agreement;

Retained Proceeds means an amount of the net issue proceeds of the Bonds which is not advanced to the Group Borrower pursuant to the Loan Agreement on the Issue Date (if any);

Secured Parties means the Bond Trustee (for itself and on behalf of the Bondholders), the Principal Paying Agent, the other Paying Agents and the Account Bank;

Security Agent means Prudential Trustee Company Limited as security agent under the Security Trust Deed for, *inter alios*, the Issuer;

Security Agreements means the Security Agreements entered into between, *inter alios*, the Group Borrower and each of the Borrowers pursuant to which each Borrower, *inter alia*, guarantees the obligations of the Group Borrower to the Issuer under the Loan Agreement;

Security Trust Deed means the Security Trust Deed dated 20th December, 2005 between, *inter alios*, the Group Borrower, the Borrowers and the Security Agent (as amended from time to time);

Transaction Account means the account of the Issuer set up with the Account Bank in respect of the Bonds in accordance with the Account Agreement;

Transaction Documents means the Loan Agreement, the Bond Trust Deed, the Agency Agreement and the Account Agreement; and

Transaction Parties means any person who is party to a Transaction Document.

2. FORM, DENOMINATION AND TITLE

The Bonds are in bearer form, serially numbered, in the denomination of £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000, with Coupons and Talons attached on issue. No Bonds will be issued with a denomination above £99,000.

Title to the Bonds and Coupons will pass by delivery. The Issuer, any Paying Agent and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bond or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

3. STATUS

The Bonds and Coupons are direct obligations of the Issuer, secured in the manner set out in Condition 4 (*Security*), and rank *pari passu* without preference or priority amongst themselves.

4. SECURITY

The Issuer's obligations in respect of the Bonds are secured (subject as provided in these Conditions and the Bond Trust Deed) pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties as follows:

(a) by an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Security Trust Deed, the Security Agreements, the Agency Agreement and the Account Agreement, in each case to the extent they relate to the Bonds;

(b) by a charge by way of first fixed charge over all moneys from time to time standing to the credit of the Transaction Account, the Cash Security Account and the Initial Cash Security Account and all debts represented thereby; and

(c) by a charge by way of first fixed charge over all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds.

The property charged and assigned pursuant to the Bond Trust Deed listed in (a) to (c) above, together with any other property or assets held by and/or assigned to the Bond Trustee and/or any deed or document supplemental thereto, is referred to herein as the **Issuer Charged Property** and the security created thereby, the **Issuer Security**.

5. ORDER OF PAYMENTS

5.1 Pre-enforcement

Prior to the enforcement of the Issuer Security, the Issuer shall apply the monies standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the **Pre-enforcement Priority of Payment**):

(a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);

(b) second, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee (including remuneration payable to it) in carrying out its functions under the Bond Trust Deed;

(c) third, in payment of any other unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;

(d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;

(e) fifth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds; and

(f) sixth, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement.

5.2 Post-enforcement

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Cash Security Account and the Initial Cash Security Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the **Post-enforcement Priority of Payment**):

(a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Bond Trustee or any receiver in preparing and executing the trusts under the Bond Trust Deed (including any taxes required to be paid, the costs of realising any Issuer Security and the Bond Trustee's remuneration); and

(b) thereafter, in accordance with the Pre-enforcement Priority of Payments.

6. COVENANTS

6.1 General Covenants

In addition to the covenants of the Issuer set out in the Bond Trust Deed, for so long as any of the Bonds remain outstanding, the Issuer covenants that it will not, without the consent of the Bond Trustee, engage in any activity or do anything other than:

(a) carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the members of the Affinity Sutton Group; and

(b) perform any act incidental to or necessary in connection with the above.

The Issuer also covenants, for so long as any of the Bonds remain outstanding, not to create or permit to subsist, over any of the security constituted by or created pursuant to the Bond Trust Deed, any mortgage or charge or any other security interest ranking in priority to, or *pari passu* with, the security created by or pursuant to the Bond Trust Deed.

6.2 Information Covenants

For so long as any of the Bonds remain outstanding, the Issuer shall:

(a) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the Compliance Certificate promptly upon receipt of the same from the Group Borrower pursuant to the terms of the Loan Agreement;

(b) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the annual reports of the Group Borrower and each of the Borrowers promptly upon publication of the same by the Group Borrower and the Borrowers respectively; and

(c) at the request of Bondholders holding not less than 33 per cent. in nominal amount of the Bonds for the time being outstanding, convene a meeting of the Bondholders to discuss the financial position of the Issuer and the Affinity Sutton Group, provided, however, that the Issuer shall not be required to convene any such meeting pursuant to this Condition 6.2(c) more than once in any calendar year. Upon the request of Bondholders to convene any such meeting, as aforesaid, the Issuer shall notify all Bondholders of the date (which such date shall be no more than 21 days following such request), time and place of the meeting in accordance with Condition 15 (*Notices*). The Issuer shall act in good faith in addressing any questions regarding the financial position of itself or any other member of the Affinity Sutton Group raised at any such meeting, provided, however, that the Issuer shall not be obliged to disclose any information which it, in its absolute discretion, considers to be of a confidential nature. For the avoidance of doubt, the provisions of this Condition 6.2(c) are in addition to the meetings provisions set out in Condition 17 (*Meetings of Bondholders, Modification and Waiver*).

6.3 Loan Agreement Consents Covenant

For so long as any of the Bonds remain outstanding, the Issuer covenants that it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Agent to take any action pursuant to, the Loan Agreement except with the prior consent of the Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

7. INTEREST

7.1 Interest Rate and Interest Payment Dates

The Bonds bear interest from (and including) 17th September, 2008 at the rate of 5.981 per cent. per annum, payable semi-annually in arrear on 17th March and 17th September in each year (each, an **Interest Payment Date**).

7.2 Interest Accrual

Each Bond will cease to bear interest from (and including) its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Bond Trust Deed.

7.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full half year, it shall be calculated on the basis of (a) the actual number of days in the period from (and including) the date from which interest begins to accrue (the **Accrual Date**) to (but excluding) the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to (but excluding) the next following Interest Payment Date.

8. PAYMENTS

8.1 Payments in respect of Bonds

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest on an Interest Payment Date will be made against presentation and surrender (or in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

8.2 Method of Payment

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with, or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

8.3 Missing Unmatured Coupons

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons), failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 11 (*Prescription*)) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 11 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

8.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment.

8.5 Payment Day

If the date for payment of any amount in respect of any Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, **Payment Day** means any day which (subject to Condition 11 (*Prescription*)):

(a) is or falls after the relevant due date;

(b) is or falls at least one Business Day after the corresponding Loan Payment Day;

(c) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and

(d) in the case of payment by a credit or transfer to a Sterling account in London as referred to above, is a Business Day in London.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

8.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Bond Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve; and

(c) the Issuer undertakes to maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Bondholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

9. REDEMPTION AND PURCHASE

9.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, the Bonds will be redeemed by the Issuer at their principal amount on 17th September, 2038.

9.2 Early Redemption

Subject to Condition 9.4 (*Mandatory Early Redemption*) below, if the Loan becomes prepayable in whole or in part prior to the repayment date specified in the Loan Agreement (other than as a result of the Bonds becoming due and repayable but, including, for the avoidance of doubt, pursuant to Clause 5.6 (*Mandatory Prepayment – Cancellation of status*) of the Loan Agreement), then the Issuer shall redeem the Bonds in whole or, in respect of a prepayment in part, in an aggregate principal amount equal to the nominal amount of the

Loan to be repaid on the date which is two Business Days after that on which payment is made by the Group Borrower under the Loan Agreement (the **Loan Prepayment Date**).

Redemption of the Bonds pursuant to this Condition shall be made at the higher of the following:

(a) par; and

(b) the price (expressed as a percentage) (as reported in writing to the Issuer and the Bond Trustee by a financial adviser nominated by the Issuer and approved by the Bond Trustee (the **Nominated Financial Adviser**)) (and rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield (determined by reference to the mid-market price) on the Bonds on the Determination Date is equal to the Relevant EIB Redemption Rate,

together with any interest accrued up to (but excluding) the Loan Prepayment Date.

For the purposes of this Condition:

Determination Date means 3 Business Days prior to the Loan Prepayment Date;

The **Gross Redemption Yield** on the Bonds and on the Relevant EIB Bonds will be expressed as a percentage and will be calculated by the Nominated Financial Adviser in accordance with generally accepted market practice at such time and advised to the Issuer and the Bond Trustee;

Relevant EIB Bonds means such sterling bonds of the European Investment Bank (or any successor thereto) as the Issuer (with the advice of the Nominated Financial Adviser) may determine (failing such determination, as determined by the Bond Trustee with such advice) to be a benchmark bond, the duration of which most closely matches the maturity of the Bonds; and

Relevant EIB Redemption Rate means the Gross Redemption Yield (determined by reference to the mid-market price) of the Relevant EIB Bonds provided that, if for any reason the Relevant EIB Redemption Rate is not capable of determination as aforesaid, then the Relevant EIB Redemption Rate shall be such rate as shall be determined by the Nominated Financial Adviser to be appropriate.

9.3 Early Redemption for Tax Reasons

If as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement), and certifies to the Bond Trustee, that it would, on the next following Interest Payment Date, be required to make a withholding or deduction in respect of payments to be made on such Interest Payment Date and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (*No obligation to pay additional amounts*) or, having so opted, notifies the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*), of its intention to cease paying such additional amounts, the Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, plus accrued interest to (but excluding) the date of redemption, as soon as reasonably practicable prior to the next following Interest Payment Date or, if it is not reasonably practicable for the Issuer to redeem the Bonds prior to the next following Interest Payment Date, within three Business Days thereafter. For the avoidance of doubt, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof.

9.4 Mandatory Early Redemption

If the Loan becomes repayable as a result of an ASFL Default, then the Issuer shall redeem the Bonds in full at their principal amount, plus accrued interest to (but excluding) the date on which the Loan is repaid (the **Loan Repayment Date**), on the date which is two Business Days after the Loan Repayment Date.

9.5 Notice of Early Redemption

Notice of any early redemption in accordance with Condition 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) above shall be given by the Issuer to the Bond Trustee, the Paying Agents and the Bondholders, in accordance with Condition 15 (*Notices*), as promptly as practicable.

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected in such place as the Bond Trustee may approve and in such manner and at such time as the Bond Trustee may deem appropriate and fair. Notice of any such selection will be given by the Issuer to the Bondholders as promptly as practicable. Each notice will specify the date fixed for redemption, the early redemption amount and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

9.6 Calculations

Each calculation, by or on behalf of the Issuer, for the purposes of this Condition 9 shall, in the absence of manifest error, be final and binding on all persons. If the Issuer does not at any time for any reason calculate amounts referred to in this Condition 9, such amounts may be calculated by the Bond Trustee (without any liability accruing to the Bond Trustee as a result) based on information supplied to it by the Issuer and each such calculation shall be deemed to have been made by the Issuer.

9.7 Purchase of Bonds by the Group Borrower or the Borrowers

The Group Borrower or any Borrower may at any time purchase Bonds in the open market or otherwise at any price. Following any such purchase, the Group Borrower or such Borrower, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer for cancellation. An amount equal to the principal amount of the Bonds being surrendered shall be deemed to be prepaid under the Loan Agreement (but, for the avoidance of doubt, without triggering a redemption under Condition 9.2 (*Early Redemption*)).

9.8 Purchase of Bonds by the Issuer

The Issuer may not at any time purchase Bonds.

9.9 Cancellation of purchased or redeemed Bonds

All Bonds redeemed by the Issuer pursuant to Conditions 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) or surrendered for cancellation pursuant to Condition 9.7 (*Purchase of Bonds by the Group Borrower or the Borrowers*) shall be cancelled and may not be issued or resold.

10. TAXATION

10.1 Payments without withholding

All payments of principal and interest in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law in which case the relevant payment will be made subject to such withholding or deduction.

For the purposes of this Condition:

Relevant Jurisdiction means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Bonds or Coupons.

10.2 No obligation to pay additional amounts

Subject as follows, neither the Issuer, the Bond Trustee nor any Paying Agent shall be obliged to pay any additional amounts to the Bondholders or Couponholders as a result of any withholding or deduction made in accordance with Condition 10.1 (*Payments without withholding*).

Notwithstanding the foregoing, in the event that the Issuer would, on the next Interest Payment Date, be required to make a withholding or deduction in respect of tax, the Issuer may, provided that it has given notice to the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*), of its intention to do so prior to such Interest Payment Date, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. If at any time the Issuer intends to cease paying such additional amounts it may do so by giving notice to the Bondholders and the Bond Trustee of its intention to do so with effect from the next Interest Payment Date.

11. PRESCRIPTION

The Bonds and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8 (*Payments*) or any Talon which would be void pursuant to Condition 8 (*Payments*).

For the purposes of this Condition:

Relevant Date means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Bond Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 15 (*Notices*).

12. EVENTS OF DEFAULT AND ENFORCEMENT

12.1 Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being secured and/or indemnified to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (b) to (c) and (e) to (g) inclusive below, only if the Bond Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice in writing to the Issuer that the Bonds are, and the Bonds shall thereupon immediately become, due and repayable at their principal amount together with accrued interest as provided in the Bond Trust Deed if any of the following events (each an **Event of Default**) shall occur:

(a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under the Conditions or the Bond Trust Deed and (except in any case where, in the opinion of the Bond Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or

(c) (A) any other present or future indebtedness of the Issuer for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (C) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £15,000,000 or its equivalent (as reasonably determined by the Bond Trustee); or

(d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or

(e) if the Issuer ceases or threatens to cease to carry on the whole or, in the opinion of the Bond Trustee, substantially all of its business, save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to all or substantially all of the Issuer's undertaking or assets, or an encumbrancer takes possession of all or substantially all of the Issuer's undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the Issuer's undertaking or assets and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

(g) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(h) if it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds, the Bond Trust Deed or the Loan Agreement.

12.2 Enforcement

The Bond Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps against the Issuer as it may think fit to enforce the provisions of the Bond Trust Deed, the Bonds, the Coupons and/or any of the other Transaction Documents, but it shall not be bound to take any such proceedings or any other action in relation to the Bond Trust Deed, the Bonds, the Coupons or any of the other Transaction Documents unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fifth in nominal amount of the Bonds then outstanding and (ii) it shall have been secured and/or indemnified to its satisfaction.

No Bondholder, Couponholder or any Secured Party (other than the Bond Trustee) shall be entitled to proceed directly against the Issuer unless the Bond Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

13. REPLACEMENT OF BONDS, COUPONS AND TALONS

Should any Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bond to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

15. NOTICES

All notices regarding the Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If, in the opinion of the Bond Trustee, publication as provided above is not practicable, a notice shall be validly given if published in another leading daily English-language newspaper with general circulation in Europe.

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Bond or Bonds, with the Principal Paying Agent.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of the Bonds in accordance with this Condition 15 (*Notices*).

16. SUBSTITUTION

The Bond Trust Deed contains provisions permitting the Bond Trustee to, subject to any required amendment of the Bond Trust Deed, without the consent of the Bondholders or the Couponholders or any Secured Party (other than, in respect of the novation or assignment of the Loan Agreement, the Group Borrower), agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Bond Trust Deed of another company subject to:

(a) the Bond Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution; and

(b) certain other conditions set out in the Bond Trust Deed being complied with.

Any such substitution shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

17.1 Meetings of Bondholders

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds, the Coupons or any of the provisions of the Bond Trust Deed. Such a meeting may be convened by the Issuer or the Bond Trustee and shall be convened by the Issuer if required in writing by Bondholders holding not less than five per cent. in principal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing in aggregate more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds or the Coupons or the Bond Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds or the Coupons), the quorum shall be one or more persons holding or representing not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than 25 per cent. in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting, and on all Couponholders.

17.2 Modification, Waiver, Authorisation and Determination

The Bond Trustee may agree, without the consent of the Bondholders, Couponholders or any Secured Party, to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds, the Bond Trust Deed or any other Transaction Document, or determine, without any such consent as aforesaid, that any Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Bondholders, the Couponholders and the Secured Parties and any such modification shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17.3 Bond Trustee to have regard to interests of Bondholders as a class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Bond Trustee shall have regard to the general interests of the Bondholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Bond Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders.

18. INDEMNIFICATION OF THE BOND TRUSTEE AND BOND TRUSTEE CONTRACTING WITH THE ISSUER

The Bond Trust Deed contains provisions for the indemnification of the Bond Trustee and for its relief from responsibility, including provisions relieving it from taking action unless secured and/or indemnified to its satisfaction. The Bond Trustee is exempted from any liability in respect of any loss, diminution in value or theft of all or any part of the Issuer Charged Property, from any obligation to insure all or any part of the Issuer Charged Property (including, in either such case, any documents evidencing, constituting or representing the same or transferring any rights, benefits and/or obligations thereunder), or to procure the same to be insured.

The Bond Trust Deed also contains provisions pursuant to which the Bond Trustee is entitled, *inter alia*, (a) to enter into or be interested in any contract or financial or other transaction or arrangement with the Issuer or any other Transaction Party or any person or body corporate associated with the Issuer or any Transaction Party and (b) to accept or hold the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the Issuer or any Transaction Party or any such person or body corporate so associated or any other office of profit under the Issuer or any Transaction Party or any such person or body corporate so associated.

The Bond Trustee shall not be bound to take any step or action in connection with the Bond Trust Deed or the Bonds or obligations arising pursuant thereto or pursuant to the other Transaction Documents, where it is not satisfied that it is indemnified and/or secured against all its liabilities and costs incurred in connection with such step or action and may demand, prior to taking any such step or action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so as to indemnify it.

The Bond Trustee shall have no responsibility for the validity, sufficiency or enforceability of the Issuer Security. The Bond Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents, neither shall the Bond Trustee be responsible for monitoring the compliance by the Group Borrower or any of the other parties to the Security Agreements and the Security Trust Deed of their obligations under the Security Agreements, the Security Trust Deed or any other document.

19. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Bonds.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. GOVERNING LAW

The Bond Trust Deed, the Agency Agreement, the Account Agreement, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

Subject as set out below, the net proceeds from the issue of the Bonds will be advanced by the Issuer to the Group Borrower pursuant to the Loan Agreement and the Group Borrower will in turn on-lend such funds to the Borrowers pursuant to the Intra-group Facility Agreements to be applied in the achievement of the relevant Borrower's objects.

In the event that insufficient security is granted by the Borrowers in favour of the Issuer on the Issue Date to enable the Group Borrower to comply with the Asset Cover Tests, all or part of the issue proceeds shall be retained in the Initial Cash Security Account and shall be advanced to the Group Borrower pursuant to the Loan Agreement if, and only to the extent that, the Group Borrower will, following any such advance, be in compliance with the Asset Cover Tests.

DESCRIPTION OF THE LOAN AGREEMENT

The following description of the Loan Agreement consists of a summary of certain provisions of the Loan Agreement and is qualified by reference to the detailed provisions thereof. The following summary does not purport to be complete and prospective investors must refer to the Loan Agreement for detailed information regarding the Loan Agreement.

Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Loan Agreement.

Facility

Subject to the provisions of the bond loan agreement (the **Loan Agreement**) dated on or around the Issue Date between the Issuer, the Group Borrower and the Security Agent, the Issuer shall make a loan to the Group Borrower in the principal amount of equal to the lesser of (i) £250,000,000 or (ii) an amount equal to the gross proceeds of the Bonds (together with any further advances, the **Loan**).

Subject to the conditions precedent set out in Clause 4.2 (*Conditions to the Making of Further Advances*) of the Loan Agreement, the Issuer may make further advances to the Group Borrower in an amount to be agreed between the Issuer, the Group Borrower and the Security Agent, either from the Retained Proceeds or following the issuance of further bonds pursuant to Condition 19 (*Further Issues*).

Purpose

The proceeds of the Loan may only be used by the Group Borrower for on-lending by the Group Borrower to any Original Borrower and any other member of the Affinity Sutton Group (subject as set out in "*Addition of Guarantors*" below) (together, the **Borrowers** and the **Guarantors**) to be applied in the achievement of the relevant Guarantor's objects.

Interest

Rate of Interest

The Loan will carry interest from (and including) 17th September, 2008 at the rate of 5.981 per cent. per annum, payable by equal half yearly instalments on each Loan Payment Date (being four Business Days prior to each Interest Payment Date).

Commitment Fee

The Group Borrower shall pay to the Issuer a commitment fee in respect of the Retained Proceeds on each Loan Payment Date in an amount equal to (a) the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (b) the interest received from the Group Borrower under the Loan Agreement on such Loan Payment Date and any interest otherwise received by the Issuer in respect of the Retained Proceeds in the relevant period. The commitment fee shall accrue on a daily basis.

Interest Periods

Notwithstanding the fact that interest is payable on each Loan Payment Date, interest and commitment fee will accrue on the Loan from (and including) an Interest Payment Date (or, in the case of the first interest period of the Loan, 17th September, 2008) to (but excluding) the immediately following Interest Payment Date.

Repayment, Purchase and Prepayment

Repayment

The Group Borrower must repay the Loan in full four Business Days prior to the Interest Payment Date in September, 2038 (the **Loan Maturity Date**).

Bond Purchase Option

The Group Borrower and each Guarantor may at any time purchase Bonds on the London Stock Exchange, by tender or by private treaty at any price. Following any such purchase, the Group Borrower or the relevant Guarantor, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer to be cancelled. An amount of the outstanding balance of the Loan equal to the outstanding balance of the Bonds surrendered shall be deemed to be prepaid (or, to the extent that no Loan remains outstanding, then an amount of the Retained Proceeds equal to the outstanding balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement).

Optional Prepayment

Pursuant to Clause 5.3 (*Optional Prepayment*) of the Loan Agreement, the Group Borrower may, at any time before the Loan Maturity Date, by giving not less than 45 nor more than 60 days' notice in writing to the Issuer and the Security Agent, prepay the whole or (as the case may be) any part of the outstanding balance of the Loan, together with any interest accrued up to and including the date of prepayment, at a price which shall be the higher of the following:

(a) par; and

(b) for so long as any Bonds are outstanding, the price as notified to the Group Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding principal amount of the applicable Bonds.

Mandatory Prepayment – Redemption of Bonds

If the Bonds become redeemable prior to the Maturity Date, other than as a result of a prepayment or termination of the Loan Agreement, the Group Borrower shall repay the outstanding balance of the Loan, together with accrued interest and accrued commitment fee thereon, on or prior to the relevant date of redemption of the Bonds.

Mandatory Prepayment – Cancellation of status

Pursuant to Clause 5.6 (*Mandatory Prepayment – Cancellation of Status*) of the Loan Agreement, the Group Borrower shall promptly notify the Issuer and the Security Agent if it becomes aware that a Borrower ceases to be a Registered Social Landlord. Within 180 days of such notification, the Group Borrower shall prepay the whole of the outstanding balance of the Loan, together with any interest and commitment fee accrued up to and including the date of prepayment, at a price which shall be the higher of the following the following:

(a) par; and

(b) for so long as any Bonds are outstanding, the price as notified to the Group Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding principal amount of the Bonds, provided, however, that if the relevant Borrower either ceases to be a Borrower or regains its status as a Registered Social Landlord within such period of 180 days, the Group Borrower shall no longer be required to redeem the Loan in accordance with Clause 5.6.

A **Registered Social Landlord** is defined for the purpose of the Loan Agreement as meaning a person registered as a social landlord pursuant to the Housing Act 1996 (as amended from time to time) or any replacement or successor legislation thereto (and includes, for the avoidance of doubt, any registered provider of social housing under such replacement or successor legislation and/or, if the term registered social landlord is no longer used in the relevant replacement or successor legislation, then any regulated provider of social housing under such replacement or successor legislation) provided that if such legislation is repealed and not replaced or succeeded, the term Registered Social Landlord shall be given such meaning as the Bond Trustee (after consultation with the Issuer) considers to correspond to such meaning as at the date that such legislation is repealed.

Redemption of Bonds – Further payment in respect of Retained Proceeds

In the event that the Group Borrower elects to, or is otherwise required to, prepay the whole of the outstanding balance of the Loan and the Issuer is required to notify the Group Borrower of the price determined under the Conditions for the redemption of a corresponding principal amount of the Bonds, then the Issuer shall be entitled to also take account of the redemption of such principal amount of the Bonds that shall correspond to the Retained Proceeds, and the price notified to the Group Borrower shall be increased accordingly.

Apportionment Basis

The Charged Properties securing the obligations of the Group Borrower under the Loan Agreement shall be apportioned on the Numerical Apportionment Basis (subject to the rights of the Beneficiaries to require the Specific Apportionment Basis to apply in limited circumstances after the occurrence of an Event of Default in accordance with the terms of the Security Trust Deed). See "*Description of the Issuer Security and the Underlying Security*" below.

The Issuer has confirmed that it shall agree (and shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its agreement) to any apportionment (or adjustment to any apportionment) of its Apportioned Properties that are apportioned on a Numerical Apportionment Basis provided that the Group Borrower would continue to be in compliance with the Asset Cover Test immediately after such apportionment (or adjustment to any apportionment).

Warranties and Covenants

The Group Borrower will make various warranties and covenants pursuant to Clause 9 (*Warranties and Covenants by ASFL*) of the Loan Agreement. These warranties and covenants include, *inter alia*, the following:

Information Covenants

The Group Borrower must supply to the Issuer and the Security Agent not later than seven months after the end of the relevant financial year copies of (i) the audited consolidated financial statements of Affinity Sutton Group Limited; (ii) the audited financial statements of the Group Borrower and each Guarantor (together, the **Obligors**); and (iii) a certificate setting out, among other things, calculations in respect of the financial covenants substantially in the form set out in the Loan Agreement (the **Compliance Certificate**) signed by an authorised signatory of the Group Borrower.

Negative Pledge

The Group Borrower shall procure that no Obligor shall create or allow to exist any Security Interest on any of its assets which are Security Assets, except as set out in Clause 9.2(c)(ii) (*General Covenants*) which includes the Security Interests created pursuant to, *inter alia*, the Security Trust Deed and the Security Agreements.

No other business

The Group Borrower must not carry on any other business or own any assets other than incurring financial indebtedness to the extent permitted by the Finance Documents (as defined in the Security Trust Deed) including the entering into of derivative transactions in connection with protection against or to benefit from fluctuations in any rate, price, currency, index or credit rating, and the making of loans and guarantees to other members of the Affinity Sutton Group and matters relating thereto, each in its capacity as a group finance vehicle for the Affinity Sutton Group and/or the entry into the Finance Documents to which it is a party and all matters contemplated therein.

Charged Properties

The Group Borrower shall procure that each Guarantor obtains any authorisation or licence required in order to enable the Security Agent pursuant to the powers of enforcement conferred on it by the Security Documents to sell vacant Charged Properties and maintains insurances on and in relation to its Charged Properties. The Group Borrower shall also (unless the Security Agent otherwise agrees in writing) procure that each Guarantor complies with any covenants or restrictive covenants relating to a Charged Property which are binding on it.

Intragroup Loan Agreement

The Group Borrower undertakes to ensure that a sufficient rate of interest is charged under the Intra-group Loan Agreements (taken as a whole) to ensure that the Group Borrower is able to meet its obligation to pay interest under, *inter alia*, the Loan Agreement.

Financial Covenants

Asset Cover Ratios

Pursuant to Clause 10.2 (*Asset Cover Ratios*):

(a) the Group Borrower shall procure that at all times the sum of (i) the Minimum Value of the NAB Charged Properties multiplied by the Lender's Security Percentage and (ii) the Charged Cash will not be less than the aggregate amount of the Loan; and

(b) the Group Borrower shall procure that at all times the total number of Units comprising Residual Charged Properties shall not fall below the total number of Units comprising NAB Charged Properties.

Interpretation

For these purposes:

Minimum Value of the NAB Charged Properties means:

$$\left(\frac{A}{105} + \frac{B}{125}\right) x\ 100$$

where:

A = the Value of the residential EUV-SH NAB Charged Properties determined on the basis of EUV-SH; and

B = the Value of the residential MV-ST NAB Charged Properties determined on the basis of MV-ST.

Cash Security Account

The Group Borrower may, at any time, deposit, or arrange for the deposit, of money into the Cash Security Account for the purpose of satisfying the Asset Cover Test. The Group Borrower has acknowledged that all sums standing to the credit of the Cash Security Account shall be charged in favour of the Bond Trustee pursuant to the terms of the Bond Trust Deed.

Subject to the delivery by the Group Borrower to the Issuer and the Bond Trustee of a Compliance Certificate demonstrating that, immediately upon the release of all or any portion of the Charged Cash, the Asset Cover Test will be satisfied, the Issuer shall, upon the request of the Group Borrower release the Charged Cash (or the relevant portion thereof) to such account as the Group Borrower shall specify.

Following the redemption in full of the Bonds the Issuer shall return any amount standing to the credit of the Cash Security Account to the Group Borrower, to the extent that such balance has not otherwise be applied in accordance with the terms of the Bond Trust Deed.

Substitution and Release of Charged Properties and Statutory Disposals

Substitution

At the request and expense of the relevant Obligor (acting through the Group Borrower), the Security Agent shall (and the Issuer shall be deemed to direct the Security Agent to) release from the relevant Security Documents such of the Charged Properties and substitute such of the Properties (a **Substitute Property**) as may be selected by the relevant Obligor (acting through the Group Borrower), provided that the Group Borrower delivers to the Issuer and the Security Agent a Substitute Property Certificate certifying that, *inter alia*, immediately following such release the Asset Cover Test will not be breached as a result of the substitution of the relevant Properties.

Subject to the delivery by the Group Borrower to the Issuer and the Security Agent of a completed Substitute Property Certificate, the Issuer shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its satisfaction with the conditions of Clause 2.3 (Additional Charged Properties) of the Security Trust Deed in relation to the Substitute Properties (see "*Additional Charged Properties*" below).

Release

At the request and expense of the relevant Obligor (acting through the Group Borrower), the Security Agent shall release (and the Issuer shall be deemed to direct the Security Agent to release) from the relevant Security Documents such of the Charged Properties as may be selected by the relevant Obligor (acting through the Group Borrower) provided that the Group Borrower delivers to the Issuer and the Security Agent a completed Property Release Certificate, certifying that, immediately following such release, the Asset Cover Test will not be breached as a result of the release of the relevant Charged Properties.

Statutory Disposals

Each Obligor shall have the right to withdraw Property from the Residual Charged Property pursuant to any Statutory Disposal, provided that the Group Borrower delivers to the Issuer and the Security

Agent a completed Statutory Disposal Certificate certifying that the relevant withdrawal relates to a Statutory Disposal and that, immediately following such release, the Asset Cover Test will not be breached as a result of the release of the relevant Charged Properties.

Approval of New Properties

Subject to delivery by the Group Borrower to the Issuer and the Security Agent of a property approval certificate confirming that, *inter alia*, the proposed New Properties are residential properties of a type and nature that are usually owned by Registered Social Landlords and that a Valuation Report has been delivered to the Security Agent pursuant to the Security Trust Deed, the Issuer shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its satisfaction with the conditions of Clause 2.3 (*Additional Charged Properties*) of the Security Trust Deed (see "*Additional Charged Properties*" below).

Valuations

Full Valuations

The Group Borrower shall deliver a Valuation Report to the Issuer at least once in every period of five calendar years in accordance with Clause 12.1(b) (*Full Valuations*) of the Loan Agreement.

Desk Top Valuations

The Group Borrower shall deliver to the Issuer and the Security Agent a Desk Top Valuation (being a valuation prepared by a Valuer on a "desk-top" basis) in the period between 31 March and the date falling 120 days thereafter in each year other than a year in respect of which a Valuation Report is required to be delivered under Clause 12.1(a) (*Full Valuations*) of the Loan Agreement).

Loan Events of Default and Enforcement

ASFL Default

Each of the following (set out in more detail in Clause 14 (*ASFL Default*) of the Loan Agreement) is an ASFL Default:

(a) ***Non-payment:*** An Obligor does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment continues for a period of not more than seven days in the case of principal and not more than 14 days in the case of interest.

(b) ***Breach of other obligations:*** An Obligor fails to perform or observe any of its obligations under the Finance Documents (other than as referred to in (a) above and (h) below) and (except in any case where, in the opinion of the Security Agent, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Security Agent on the relevant Obligor of notice requiring the same to be remedied.

(c) ***Other non-payment:*** (A) Any other present or future indebtedness of an Obligor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (C) an Obligor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £15,000,000 or its equivalent (as reasonably determined by the Security Agent) and provided, further, for the avoidance of doubt, that the amounts mentioned in this paragraph (c) shall exclude the amount of any Public Sector Subsidy except for any Public Sector Subsidy which is or becomes due and payable to the relevant grant making body or organisation.

(d) ***Winding-Up:*** Any order is made by any competent court or resolution passed for the winding up or dissolution of an Obligor save for the purposes of a Permitted Reorganisation (as defined in the Loan Agreement) or other reorganisation on terms previously approved in writing by the Security Agent.

(e) ***Cessation of Business:*** An Obligor ceases or threatens to cease to carry on the whole or, as determined by the Security Agent, a substantial part of its business, save for the purposes of a Permitted Reorganisation (as defined in the Loan Agreement) or other reorganisation on terms previously approved in writing by the Security Agent, or an Obligor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent.

(f) ***Insolvency:*** Any of the insolvency related events occurs or proceedings are taken in accordance with Clause 14.7 (*Insolvency*) or Clause 14.8 (*Insolvency Proceedings*), respectively.

(g) ***Unlawfulness:*** It is or becomes unlawful for an Obligor to perform any of its material obligations under the Finance Documents to which it is a party.

(h) ***Breach of Asset Cover Test:*** The Group Borrower fails to perform its obligations under Clause 10.2 (*Asset Cover Ratios*) of the Loan Agreement and (except in any case where, in the opinion of the Security Agent, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Security Agent on the Group Borrower of notice requiring the same to be remedied.

ASFL Default Notice

Following an ASFL Default (and in the case of the happening of any of the events described in paragraphs (b) (*Breach of other obligations*) to (d) (*Winding-up*) (other than the winding up or dissolution of the Group Borrower) and (e) (*Cessation of Business*) to (g) (*Unlawfulness*) (other than unlawfulness in respect of the Group Borrower) inclusive above, only if the Security Agent shall have certified in writing to the Group Borrower that such event is, in its opinion, materially prejudicial to the interests of the Lender), the Security Agent at its discretion may, and shall, upon and in accordance with the request of the Issuer, declare by notice to the Group Borrower either:

(a) that the security for the Loan has become, whereupon the security for the Loan shall become, immediately enforceable; or

(b) (irrespective of whether a notice to the effect set out in (a) shall have already been given) that the Loan has become due and repayable, whereupon that Loan shall become immediately due and repayable at the outstanding balance thereof together with accrued interest, premium (if any) and any other amounts and the security therefor shall become immediately enforceable.

Enforcement

If the security constituted under any Security Documents becomes enforceable as a result of the service of a notice pursuant to Clause 14.11(b) (*ASFL Default Notice*), then the Security Agent or any Receiver shall hold the monies arising from any sale, calling in, collection or conversion under the powers of conversion contained in the Security Documents after the security has become enforceable upon trust to apply the same:

(a) First, in payment or retention of all costs, charges, expenses and liabilities incurred in or about the exercise of such powers or otherwise in accordance with the Security Documents and payments made by the Security Agent or any Receiver in accordance with the Security Documents and of all remuneration payable to the Security Agent or any receiver in accordance with the Security Documents with interest thereon as provided in the Security Documents;

(b) Second, in or towards payment to the Issuer of all interest then due and remaining unpaid on the Loan; and

(c) Third, in or towards payment to the Issuer of all principal and premium (if any) then due and remaining unpaid in respect of the Loan.

Addition and Resignation of Guarantors

Addition of Guarantors

Pursuant to Clause 21.4 (*Addition of New Guarantors*) of the Loan Agreement, the Group Borrower may procure that any other member of the Affinity Sutton Group becomes a Guarantor provided that such member is a Charity and a Registered Social Landlord, has entered into a Security Agreement on substantially the same terms as those entered into by the Original Borrowers and the Security Agent has received written confirmation from the Rating Agency that the accession of the proposed additional Guarantor would not adversely affect the then current credit rating of the Bonds.

Resignation of Guarantors

Pursuant to Clause 21.5 (*Resignation of a Guarantor*) of the Loan Agreement, a Guarantor may cease to be a Guarantor, upon request by the Group Borrower, provided that the Group Borrower confirms that the Asset Cover Test will not be breached by reason of the resignation of such Guarantor and Security Agent has received written confirmation from the Rating Agency that the resignation of the such Guarantor would not adversely affect the then current credit rating of the Bonds.

Clauses 21.4 and 21.5 do not, however, prohibit a Guarantor from amalgamating, merging or consolidating with, or transferring engagements between, any other Guarantor.

Taxes

The Group Borrower must make all payments to be made by it to the Issuer under, *inter alia*, the Loan Agreement and the Security Trust Deed, without any deduction or withholding for or on account of tax, unless a deduction or withholding is required by law.

If a deduction or withholding from any such payment is required by law to be made by the Group Borrower, the amount of the payment due from the Group Borrower shall be increased to an amount which (after making such deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required.

If as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement) that it would on the next following Interest Payment Date be required to make a withholding or deduction in respect of payments to be made by the Issuer to the Bondholders pursuant to the Conditions, the Group Borrower may (but, for the avoidance of doubt, shall not be obliged to), in its sole discretion, pay to the Issuer such additional amounts as will enable the Issuer (after such withholding or deduction) to pay to the Bondholders the amounts of principal and interest which they would have received in respect of the Bonds in the absence of such withholding or deduction. The Group Borrower shall continue to pay such additional amounts to the Issuer unless and until the Group Borrower delivers to the Issuer a notice stating that it shall cease to make such additional payments with effect from the next following Interest Payment Date.

Governing Law

The Loan Agreement , and any non-contractual obligations or matters arising from or connected with it, are governed by and shall be construed in accordance with English law.

DESCRIPTION OF THE SECURITY AGREEMENTS AND THE SECURITY TRUST DEED

The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the Issuer Security, which includes an assignment by way of security of the Issuer's rights, title and interest arising under the Security Agreements and the Security Trust Deed.

The following description of the Security Agreements and the Security Trust Deed consists of a summary of certain provisions of the Security Agreements and the Security Trust Deed and is qualified by reference to the detailed provisions thereof. The following summary does not purport to be complete and prospective investors must refer to the Security Agreements and Security Trust Deed for detailed information regarding the Security Agreements and the Security Trust Deed, respectively.

Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Security Agreements and/or the Security Trust Deed.

SECURITY AGREEMENTS

Guarantee and Indemnity

The Borrowers (each a **Guarantor** and, together, the **Guarantors**) have each, pursuant to a Security Agreement entered into with the Group Borrower and the Security Agent, (each a **Security Agreement** and, together, the **Security Agreements**), irrevocably and unconditionally:

(a) guaranteed to the Issuer the punctual performance by the Group Borrower of all its obligations under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements;

(b) undertaken with the Issuer that, whenever the Group Borrower does not pay any amount when due under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements, it must, immediately on demand by the Security Agent, pay that amount as if it were the principal obligor; and

(b) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal.

First Fixed Charge

The Borrowers, as security for the payment and discharge of all Secured Liabilities, have each, pursuant to their respective Security Agreements, charged in favour of the Security Agent for the benefit of itself and, *inter alios,* the Issuer:

(a) by way of a first legal mortgage all the property referred to in Schedule 1 thereto together with all buildings and Fixtures thereon, the proceeds of sale of all or any part thereof and (so far as the same are capable of being mortgaged) the benefit of any covenants for title given or entered into by any predecessor in title of such Borrower and any moneys paid or payable in respect of such covenants;

(b) by way of first fixed charge:

   (i) all fixed plant and machinery now or in the future owned by such Borrower and its interest in any fixed plant or machinery in its possession, in each case which form part of the Mortgaged Property;

(ii) all benefits in respect of the Insurances and all claims and returns of premiums in respect thereof;

(iii) the benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with its business so far as it relates to the Security Assets or the use of any of the Security Assets specified in paragraph (a) and subparagraph (i) above and the right to recover and receive all compensation which may at any time become payable to it in respect thereof; and

(iv) if and in so far as the legal mortgages set forth in paragraph (a) above or the assignments set forth in the section entitled *"Assignment"* below shall for any reason be ineffective as legal mortgages or assignments, the assets referred to in those clauses.

Assignment

The Borrowers, as security for payment and discharge of all Secured Liabilities, have each, pursuant to their respective Security Agreements, assigned to the Security Agent for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to:

(a) each Council Sale Agreement;

(b) the personal agreements and covenants by the tenants, lessees, licensees or other parties under the Letting Documents and by all guarantors in respect thereof and all security held by such Borrower in respect of the obligations of the tenants, lessees, licensees or other parties under the Letting Documents (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith); and

(c) all agreements, now or from time to time entered into or to be entered into for the sale, letting or other disposal or realisation of, or in connection with the management, ownership, refurbishment, development, repair, improvement or servicing of, the whole or any part of the Security Assets (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith).

Each Borrower shall, however, until an event of default has occurred and is continuing under any loan agreement which is secured pursuant to the Security Trust Deed (including the Loan Agreement), be entitled to exercise all its rights and claims under or in connection with such agreements.

Representations, Warranties and Undertakings

Each Borrower makes various representations in respect of the Mortgaged Property including as to ownership, planning permission, covenants and security interests. In addition, each Borrower undertakes to repair, insure, pay or procure the payment of taxes in respect of and comply with all leases in respect of, the Mortgaged Property.

Enforcement of Security

Each Security Agreement provides that at any time after (i) an event of default has occurred under any loan agreement which is secured pursuant to the Security Trust Deed (including the Loan Agreement) which is continuing and (ii) the service of a demand for payment on a Borrower by the Security Agent under the guarantee and indemnity contained in the relevant Security Agreement, the security created by or pursuant to such Security Agreement will be immediately enforceable and the Security Agent may, without notice to such Borrower or any prior authorisation from any court, in its absolute discretion:

(a) enforce all or any part of that security (at the times, in the manner and on the terms it thinks fit) and take possession of and hold or dispose of all or any part of the Security Assets; and

(b) whether or not it has appointed a Receiver, exercise all or any of the powers, authorities and discretions conferred by the Law of Property Act 1925 (as varied or extended by the Security Agreement) on mortgagees and by the Security Agreement on any Receiver or otherwise conferred by law on mortgagees or Receivers.

After the security constituted by the Security Agreement has become enforceable, the Security Agent may in its absolute discretion enforce all or any part of such security in such manner as it sees fit in accordance with the provisions of the Security Trust Deed.

Each Security Agreement further entitles the Security Agent and, *inter alios*, the Issuer to be indemnified out of the Security Assets in respect of all liabilities and expenses properly incurred by them in the execution of the powers, authorities or discretions vested in them pursuant to, *inter alia*, the Security Trust Deed or the Security Agreements.

Any moneys received by the Security Agent pursuant to the enforcement of the Security Agreements shall be applied by the Security Agent in accordance with the Security Trust Deed.

SECURITY TRUST DEED

The benefit of the guarantees and security created by the Borrowers pursuant to the Security Agreements shall be held by the Security Agent on trust for the benefit of itself and, *inter alios*, the Issuer on the terms of the Security Trust Deed.

Division of Security Assets

Division of Charged Properties and Related Security Assets

The Loan Agreement specifies that the Charged Property is to be apportioned on a "Numerical Apportionment Basis". The Security Trust Deed provides that, where Numerical Apportionment Basis is specified as the basis for apportionment, a specific number of units within the portfolio of Charged Properties is designated to each Beneficiary (each, a **NAB Beneficiary**) as agreed between the Group Borrower and, in the case of the Loan Agreement, the Issuer.

Where Numerical Apportionment Basis is specified as the apportionment basis, a Beneficiary in respect thereof is entitled to change its basis of apportionment to "Specific Apportionment Basis" only in the limited circumstances and in accordance with the procedures specified in the Security Trust Deed.

In the event that the apportionment basis is changed to Specific Apportionment Basis the apportioned part of the Charged Properties shall be as selected and notified to the Issuer in accordance with the terms of the Security Trust Deed.

Disposals of Charged Properties

Pursuant to the terms of the Loan Agreement, the Guarantors are permitted to dispose of or have released to them Charged Properties subject to the requirements set out therein (see "*Description of the Loan Agreement*" above).

Such disposals and releases are permitted pursuant to the terms of the Security Trust Deed, provided that the Group Borrower remains in compliance with the asset cover ratios and debt service ratios set out in the Loan Agreement and the disposal or release of such Charged Property will not result in the Group Borrower breaching any of such undertakings and no ASFL Default has occurred and is outstanding or would occur as a result of such adjustment and such Charged Property shall, upon disposal or release, be withdrawn from the Charged Properties (except that any disposal or release pursuant to a Right-to-Buy or Shared Ownership Sale in accordance with the Loan Agreement shall not be subject to the above proviso).

Additional Charged Properties

Pursuant to Clause 2.3 (*Additional Charged Properties*), at the request and expense of the relevant Guarantor, the Security Agent shall accept any additional Property (and Related Security Assets) into charge as may be selected by the relevant Guarantor, subject to the requirements as to the nature of the Property, valuations in respect thereof and documentation relating thereto as set out therein.

Application of Proceeds

Application of Proceeds relating to the Residual Charged Properties

Any moneys received by the Security Agent in respect of the Residual Charged Properties (being Charged Properties which have not been apportioned on a Specific Apportionment Basis) (together with any Related Security Assets) less the relevant proportion of any costs and expenses of the Security Agent shall, in accordance with the Security Trust Deed, be applied in the following order of priorities:

(a) first, in payment of any Specific Expenses relating to the Residual Charged Properties;

(b) second, by allocating the balance among the NAB Beneficiaries by reference to their NAB Security Percentages so that the amount allocated to each NAB Beneficiary shall be applied in satisfaction when due of the Secured Liabilities owed to such NAB Beneficiary arising under or in connection with each loan agreement which is secured pursuant to the Security Trust Deed to which such NAB Beneficiary is a party (each a Residual Loan Agreement) in the order of priority set out therein (deducting for its own account, where appropriate, any Valuer's Expenses from the relevant NAB Beneficiary's allocation) (and so that, in each case, any surplus remaining after payment of all such Secured Liabilities shall be re-allocated among the remaining NAB Beneficiaries mutatis mutandis in accordance with the foregoing provisions). For the avoidance of doubt, no surplus amounts shall be reallocated by the Security Agent until all Secured Liabilities have been fully discharged in connection with the relevant Residual Loan Agreement;

(c) third, in satisfaction when due of the Secured Liabilities owed to each Other Beneficiary arising under or in connection with the Other Loan Agreements in accordance with the paragraph below; and

(d) fourth, in payment of any surplus to the relevant Obligor.

Application of Other Proceeds

In addition to the above, the Security Trust Deed provides for the application of proceeds in respect of, *inter alia*, moneys received in respect of specifically apportioned properties and monies received in respect of the guarantee and indemnity contained in each Security Agreement after the enforcement of any security under the Security Documents.

DESCRIPTION OF THE ISSUER

Incorporation and Status

Affinity Sutton Capital Markets plc (the **Issuer**) is a public limited company incorporated in England and Wales on 20th August, 2008 under the Companies Act 1985.

The registered address of the Issuer is Level 6, 6 More London Place, Tooley Street, London SE1 2DA. The telephone number of its registered address is 020 7378 5569. The Issuer has no subsidiaries.

Principal Activities of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing the Bonds (and incurring other indebtedness (including other secured indebtedness but subject to the covenant set out in Condition 6.1 (*General Covenants*))) and lending the proceeds thereof to the Group Borrower for on-lending to the Borrowers to be applied in the achievement of the relevant Borrower's objects.

Directors

The directors of the Issuer and their other principal activities are:

Name	**Other Principal Activities**
Bob Vandersluis	Director of Treasury and Corporate Finance of Affinity Sutton Group Limited
Rod Ainsworth	Group Legal Director & Company Secretary of Affinity Sutton Group Limited

The business address of each of the directors is Level 6, 6 More London Place, Tooley Street, London SE1 2DA.

The secretary of the Issuer is Rod Ainsworth whose business address is at Level 6, 6 More London Place, Tooley Street, London SE1 2DA.

There are no potential conflicts of interest between any duties to the Issuer of the directors of the Issuer and their private interests and/or duties.

The Issuer has no employees but has available to it the treasury and business resources of the Affinity Sutton Group to enable it to administer its business and perform its obligations.

Share Capital and Major Shareholders

The entire issued share capital of the Issuer comprises 50,000 ordinary shares (the **Ordinary Shares**) of £1 each, two of which are fully paid up and 49,998 of which are one quarter paid up.

The Issuer is a subsidiary of Affinity Sutton Funding Limited which holds 49,999 of the Ordinary Shares in the Issuer and a subsidiary of Affinity Sutton Group Limited which holds one Ordinary Share in the Issuer.

Affinity Sutton Funding Limited exercises control over the Issuer through the legal controls reserved to it in the constitution of the Issuer, and through contractual arrangements made between the Issuer and the other members of the Affinity Sutton Group.

Operations

Since the date of incorporation, the Issuer has not commenced operations and no financial statements have been made up as at the date of this Offering Circular.

DESCRIPTION OF THE AFFINITY SUTTON GROUP

Introduction

The Affinity Sutton Group (the **Affinity Sutton Group**) currently consists of Affinity Sutton Group Limited (the **Group Parent**), its direct subsidiaries (currently being Affinity Sutton Funding Limited, Broomleigh Housing Association Limited, Downland Housing Association Limited, William Sutton Housing Association Limited, Grange Management (Southern) Limited and the Issuer (in respect of one nominee share)) and its indirect subsidiaries.

The following table shows each of the Affinity Sutton Group's main companies and their immediate subsidiaries:

Affinity Sutton Group Limited**
Group Parent: The Group Parent does not own any social housing assets but provides strategic direction and ultimate control to the members of the Affinity Sutton Group.

William Sutton Housing Association Ltd (trading as William Sutton Homes)* Operating nationally.	**Broomleigh Housing Association Ltd*** Operating in SE London and Thames Gateway.	**Downland Housing Association Ltd*** Operating in the South East.	**Grange Management (Southern) Ltd** Industrial and Provident Society undertaking property management.	**Affinity Sutton Funding Ltd** Special purpose company limited by guarantee; Affinity Sutton Group borrowing vehicle.
William Sutton Developments Ltd Property development company limited by shares.	**Broomleigh Regeneration Ltd** Property development company limited by shares.	**Downland Regeneration Ltd** Property development company limited by shares		
Aashyana Housing Association Ltd* Small BME RSL operating in Bristol.		**BHT*** Undertaking special needs, homelessness, housing and legal advice.		
Community Building Services (CBS) Ltd Residential property maintenance company limited by shares.				

* Charitable RSL

** Non charitable RSL

Principal Activities of the Affinity Sutton Group

The Affinity Sutton Group is one of the largest housing groups in the country. It is a business for social purpose with a mission to use its heritage, fresh thinking and commitment to help people put down roots.

The Affinity Sutton Group's vision is to be the leading provider of affordable housing in England by delivering excellent services to its residents, maintaining its properties to the highest standards, developing new homes across different tenures, involving residents in decision making and investing in its people and communities.

Affinity Sutton Group Limited operates a group structure. It is a non-asset holding Registered Social Landlord which provides a wide range of services to operating companies (including developing new homes), sets the Affinity Sutton Group's strategic direction and provides ultimate control of strategy and governance. Seven of the Affinity Sutton Group's operating companies provide a range of housing management and associated specialist services. Affinity Sutton Funding Limited raises and oversees the Affinity Sutton Group's funding requirements.

The Affinity Sutton Group's property portfolio is made up of almost 53,000 homes with a value of over £2 billion (valued on an existing use basis). These properties are located in more than 120 local authority areas across England, with the largest number in London and the South East. The properties are maintained to a high standard. Almost 90 per cent. already meet the government's Decent Homes Standard as a result of planned investment and major works programmes which saw investment of £50 million in 2007/2008.

The Affinity Sutton Group is committed to delivering excellent services to residents, which is reflected in customer satisfaction levels at almost 80 per cent. across the three main RSL operating companies. This performance is amongst the strongest in the sector.

Despite the current difficult economic climate, the Affinity Sutton Group remains financially robust as demonstrated by a "Aa2" rating by Moody's Investors Service, Inc., which was affirmed on 3rd September, 2008. In 2007/2008 the Affinity Sutton Group achieved a surplus of just over £25.2 million on a turnover of some £203 million.

Group Board

The Board of Management of the Group Parent (the **Group Board**) sets strategy and policies across the Affinity Sutton Group and coordinates the Affinity Sutton Group's activities.

The Group Board exercises control over the Group Borrower and the Original Borrowers through the legal controls reserved to it in the constitutions of the Group Borrower and the Original Borrowers, respectively, and through contractual arrangements made between the Group Borrower and each of the Original Borrowers. Further controls and delegations are set out in the standing orders for group members including, in particular, the right reserved to the Group Board to approve the annual business plans of each of the Original Borrowers.

The Group Board is responsible for maintaining and reviewing the Affinity Sutton Group's system of internal control. The Affinity Sutton Group has an audit committee which is accountable to the Group Board for monitoring this system and reporting on its effectiveness.

The operation of the Affinity Sutton Group

The Affinity Sutton Group and the three Original Borrowers (Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited) are part of a group structure arrangement that meets the regulatory requirements of the Housing Corporation and the Original Borrowers are subsidiaries of the Group Parent for the purposes of Section 60 of the Housing Act 1996. Parental control is exercised through powers contained in the rules of each entity and in an intra group agreement (**IGA**) which together enable the Group Parent to remove or appoint all or any board members and to approve business, operational and other financial plans of each of the Original Borrowers. The IGA also provides for dispute resolution between the parties and, subject to certain conditions and parental and regulatory consents, permits an Original Borrower to leave the Affinity Sutton Group. Before giving consent, the Group Parent and the Housing Corporation would require there to be a persuasive business case in favour of withdrawal. This would take into account the financial impact on the Affinity Sutton Group, the interests of the other Original Borrowers and the effect on residents. Further, any exit from the Affinity Sutton Group would require consents from various creditors of Affinity Sutton Funding Limited (although, in the case of the Issuer, such consent is not required provided that the Group Borrower confirms that the Asset Cover Test will not be breached by the resignation of any such Original Borrower and that the Security Agent has received written confirmation from the Rating Agency that it would not adversely affect the current credit rating of the Bonds). (For further details, see "*Description of the Loan Agreement - Additions and Resignation of Guarantors*")

Corporate Governance

In July 2007, the Housing Corporation issued circular 07/07 on internal controls assurance. The Group Board believes that the Affinity Sutton Group has in place the frameworks required to comply with the requirements of circular 07/07. The Group Board is of the view that the Affinity Sutton Group complies with the National Housing Federation's Code of Governance.

AFFINITY SUTTON FUNDING LIMITED

Incorporation and Status

Affinity Sutton Funding Limited (the **Group Borrower**) was incorporated with limited liability with registered number 5589011 on 11th October, 2005 under the Companies Act 1985. On 9th July, 2008 the Group Borrower changed its name from Affinity Funding Limited to Affinity Sutton Funding Limited.

The registered address of Affinity Sutton Funding Limited is Level 6, 6 More London Place, Tooley Street, London SE1 2DA. The telephone number of its registered address is 020 7378 5569. The Group Borrower has no subsidiaries, other than the Issuer.

Principal Activities of the Group Borrower

The Group Borrower does not own any social housing assets but provides financial services to the members of the Affinity Sutton Group.

Directors

The directors of the Group Borrower and their principal activities outside the Group Borrower, where these are significant with respect to the Group Borrower, are as follows:

Name	**Principal activities outside the Group Borrower**
Robert Dean (Chairman)	Retired Deputy Chairman, Savills
Roger Brocklehurst	Retired Banker
Peter Berry	Financial Consultant
Nick Preston	Director, Railway Finance Limited
Colin Sturgeon	Deputy Chairman, Channel Capital Advisors LLP

Paul Smith	Retired Finance Director, Ford Motor Company UK
Keith Exford	Group Chief Executive, Affinity Sutton Group Limited
Mark Washer	Group Finance Director, Affinity Sutton Group Limited

The business address of each of the directors is Affinity Sutton Funding Limited, Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

The secretary of the Group Borrower is Rod Ainsworth whose business address is at Affinity Sutton Funding Limited, Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

There are no potential conflicts of interest between any duties to the Group Borrower of the directors of the Group Borrower and their private interests and/or duties.

Share Capital and Major Shareholders

The Group Borrower is a private company limited by guarantee with no share capital. The Group Borrower's sole member is Affinity Sutton Group Limited.

Recent Developments

There have been no recent events particular to the Group Borrower that are, to a material extent, relevant to the evaluation of the Group Borrower's solvency.

THE ORIGINAL BORROWERS

The Original Borrowers are Broomleigh Housing Association Limited (**Broomleigh**), Downland Housing Association Limited (**Downland**) and William Sutton Housing Association Limited (**William Sutton**).

Principal Activities of the Original Borrowers

Each Original Borrower is a Registered Social Landlord whose activities are regulated by the Housing Corporation. The Original Borrowers are all Industrial and Provident Societies, and, as such, are exempt from registration with the Charity Commission but nevertheless have charitable status.

Each of the Original Borrower's primary business objects are to provide a wide range of products and services in the housing sector including the development of new homes at affordable rents, and for open market and affordable residential property sales.

Any surpluses which result from the Original Borrowers' operations are reinvested in the Affinity Sutton Group.

The Original Borrowers are active in over 120 local authority areas and work in partnership with a wide range of statutory and voluntary organisations to deliver a locally responsive service, backed by the expertise and financial strength of the Affinity Sutton Group. This is demonstrated by the broad scope of the Original Borrowers' activities, which include:

- the management and maintenance of quality, affordable housing for families, couples and single people;
- investment in new development, large scale regeneration and conversion schemes;
- community investment activities;

- low cost home ownership initiatives; and
- the development of residential property for sale on the open market.

BROOMLEIGH HOUSING ASSOCIATION LIMITED

Incorporation and Status

Broomleigh was incorporated with limited liability under the Industrial and Provident Societies Act 1965 (with registered number 27304R) on 8th February, 1991 and is registered under the Housing Act 1996 with the Housing Corporation (with registered number L3979). It is also affiliated to the National Housing Federation.

The registered address of Broomleigh is Maple House, 157-159 Masons Hill, Bromley, Kent BR2 9HY. The telephone number of its registered address is 020 8313 3310.

Broomleigh has the following subsidiaries: Broomleigh Regeneration Limited (Company Registration Number: 6494492), Lavender Housing Partnership (Company Registration Number: 4955029) and Urban Direct Limited (Company Registration Number: 05326650).

Directors

The directors of Broomleigh and their principal activities outside Broomleigh, where these are significant with respect to Broomleigh, are as follows:

Name	Principal activities outside Broomleigh
Simon Randall (Chairman)	Partner, Lawrence Graham LLP (Solicitors)
Peter Berry	Financial Consultant
Peter Buckland	Retired Publican, Resident Member
Martin Curry	Ward Councillor, London Borough of Bromley
Derrick Egerton	Chartered Accountant
Jacqueline Giles	Head of Learner Services & Professional Studies
Constance Hall	Management Consultant
William Huntington-Thresher	Ward Councillor, London Borough of Bromley
Francis Johnson-Beke	Youth Worker, Resident Member
Pat Mansfield	Former Councillor, London Borough of Bromley
Nicola MacBride	Assistant Director, Community Investment
Louise Norton	Probation Officer, Resident Member
Mark Schranz	Voluntary Officer, British Trust for Conservation, Resident Member

The business address of each of the above board members is Broomleigh Housing Association Limited, Maple House, 157-159 Masons Hill, Bromley, Kent BR2 9HY.

There are no potential conflicts of interest between any duties to Broomleigh of the directors of Broomleigh and their private interests and/or duties.

Share Capital and Major Shareholders

The entire issued share capital of Broomleigh comprises 82 ordinary shares (the **Ordinary Shares**) of £1.00 each, all of which are fully paid up.

Broomleigh is a subsidiary of Affinity Sutton Group Limited.

Recent Developments

There have been no recent events particular to Broomleigh that are, to a material extent, relevant to the evaluation of Broomleigh's solvency.

DOWNLAND HOUSING ASSOCIATION LIMITED

Incorporation and Status

Downland was registered in 1968 under the Industrial and Provident Societies Act 1965 and incorporated with limited liability (with registered number 26901R) on 5th April, 2004. It is registered under the Housing Act 1996 with the Housing Corporation (with registered number L3901). It is also affiliated to the National Housing Federation.

The registered address of Downland is Norris House, Burrell Road, Haywards Heath, West Sussex RH16 7YL. The telephone number of its registered address is 0845 688 7717.

Downland has the following subsidiaries: Downland Regeneration Limited (Company Registration Number: 06456605) and Brighton Housing Trust (Housing Corporation Number: H1696, Charity Commission Number: 284839, Company Registration Number: 01618610).

Directors

The directors of Downland and their principal activities outside Downland, where these are significant with respect to Downland, are as follows:

Name	Principal activities outside Downland
Alan Forbes (Chairman)	Retired Dental Surgeon and serving Justice of the Peace
Judy Abbot	Former Citizens Advice Bureau Manager
Roger Brocklehurst	Retired Banker
Alan Frost	Retired Registered Social Landlord Chief Executive
Kathryn Hall	Corporate Strategic Director, Mid-Sussex District Council
Delilah Hesling	Nurse, Resident Member
Chris Kinnear	Retired Management Consultant; Former Managing Director and Chartered Accountant
Patrick McTernan	Retired Stock Trader, Resident Member
Chris Snowling	Councillor, Mid Sussex District Council
Allen Wells	Councillor, Ashford District Council

The business address of each of the above board members is Norris House, Burrell Road, Haywards Heath, West Sussex RH16 7YL.

There are no potential conflicts of interest between any duties to Downland of the directors of Downland and their private interests and/or duties.

Share Capital and Major Shareholders

The entire issued share capital of Downland comprises 25 ordinary shares (the **Ordinary Shares**) of £1.00 each, all of which are fully paid up.

Downland is a subsidiary of Affinity Sutton Group Limited which holds all of the Ordinary Shares in Downland.

Recent Developments

There have been no recent events particular to Downland that are, to a material extent, relevant to the evaluation of Downland's solvency.

WILLIAM SUTTON HOUSING ASSOCIATION LIMITED

Incorporation and Status

William Richard Sutton originally bequeathed a fund in a Will dated 15th August, 1894 which subsequently founded the establishment of the William Sutton Trust. The organisation (now known as William Sutton Housing Association Limited and trading as William Sutton Homes) was incorporated with limited liability under the Industrial and Provident Societies Act 1965 (with registered number 30203R) on 15th March, 2007 and is registered under the Housing Act 1996 with the Housing Corporation (with registered number L4489). It is also affiliated to the National Housing Federation.

The registered address of William Sutton is 12 Elstree Way, Borehamwood, Hertfordshire WD6 1JE. The telephone number of its registered address is 020 8235 7000.

William Sutton has the following subsidiaries: Aashyana Housing Association (Housing Corporation Number: L4392), Community Business Services Ltd (Company Registration Number: 03623233), William Sutton Developments Ltd (Company Registration Number: 05452017) and William Sutton Trust (dormant) (Housing Corporation Number: L0052, Charity Commission Number: 205847).

Directors

The directors of William Sutton and their principal activities outside William Sutton, where these are significant with respect to William Sutton, are as follows:

Name	Principal activities outside William Sutton
Michael Herring (Chairman)	Property Investor
Kenneth Shipman	Estate Agent
Paul Smith	Retired Finance Director, Ford Motor Company UK
Pamella Bardouille	Connexions Advisor, Resident Member
Nicholas Jones	Deputy Head of Strategic National Heathcare, Health Commission
Christine Wood	Retired, Resident Member
Winifred Dillon	Retired, Resident Member

The business address of each of the above board members is 12 Elstree Way, Borehamwood, Herts, WD6 1JE.

There are no potential conflicts of interest between any duties to William Sutton of the directors of William Sutton and their private interests and/or duties.

Share Capital and Major Shareholders

The entire issued share capital of William Sutton comprises 100 ordinary shares (the **Ordinary Shares**) of £1.00 each, all of which are fully paid up.

William Sutton is a subsidiary of Affinity Sutton Group Limited.

Recent Developments

There have been no recent events particular to William Sutton that are, to a material extent, relevant to the evaluation of William Sutton's solvency.

FINANCIAL STATEMENTS OF THE GROUP PARENT

The consolidated financial statements for the financial years ended 31st March, 2007 and 31st March, 2008 for the Group Parent (the **Group Parent**) are set out below.

The reports of the auditors of the Group Parent in respect of the financial years ended 31st March, 2007 and 31st March, 2008 are set out below.

Given that, in aggregate, the Group Borrower and each of the Borrowers' assets account for over 98 per cent. of the assets of the Affinity Sutton Group, the Issuer believes that the Group Accounts are representative of the individual accounts of the Group Borrower and the Borrowers.

Affinity Sutton Group Limited

Registered Office: Level 6, 6 More London Place, Tooley Street, London, SE1 2DA

Telephone: 020 8313 0660 **Fax:** 020 8315 5200 **Website:** www.affinitysutton.com

Affinity Sutton

Affinity Sutton Group Limited

Financial Statements 2006/07

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Non-Executive and Executive Directors

Board of Affinity Sutton Group Limited

Alan Kilburn OBE	Chairman
David Shrimpton	Vice Chairman
Pat Berry	
Joyce Batten	
Desmond Begley	
Robert Dean	
Keith Exford	
John Farrant	
Michael Herring	
Kerry Kyriacou	
Niku Mawby	
Simon Randall CBE	
Peter Reynolds	
David Viney	
Mark Washer	

Resignations during 2006/07

Adrian Bell	Retired 30 September 2006
Roger Brocklehurst	Retired 30 September 2006
Mike Lye	Retired 5 April 2006
Kerry Pollard	Removed 25 April 2007

Executive Directors

Keith Exford	Group Chief Executive
Rod Ainsworth	Group Legal Director and Company Secretary
Jonathan Cawthra	Group Resources Director
Mark Hewson	Group Director Special Projects
Kerry Kyriacou	Group Development and New Business Director
Tom Martin	Chief Executive, Grange Management (Southern) Limited
Neil McCall	Interim Chief Executive, William Sutton Homes
Mark Perry	Chief Executive, Downland Housing Association
Mark Washer	Group Director of Finance
Paul Eastwood	Chief Executive, William Sutton Homes - Resigned 6 July 2007

Company Secretary

Ali Johnson	Resigned 2 June 2006
Rod Ainsworth	Appointed 3 June 2006

The Board presents its report, including the Operating and Financial Review, and the audited Financial Statements for the year ended 31 March 2007. Members of the Board who served during the year are set out on page one.

Group Structure

The year under review has seen very significant change for the Group. The planned merger between the Affinity Homes and William Sutton Groups occurred on 2 October 2006. Also as planned, BHT became a subsidiary of William Sutton Housing Association in September 2006; Tor Homes, a subsidiary of William Sutton Housing Association, left the Group on 31 March 2007, and William Sutton Housing Association itself merged through amalgamation with its subsidiary Ridgehill Housing Association, also in March 2007. BHT became a subsidiary of Downland Housing Association on 1 May 2007.

Principal Activities

The principal activity of Affinity Sutton Group Limited (Affinity Sutton) is to provide strategic direction and business support services to its operating companies in its capacity as parent company. The operating companies of Affinity Sutton Group comprise:

Aashyana Housing Association Limited (Aashyana)
Affinity Funding Limited (AFL)
Brighton Housing Trust (BHT)
Broomleigh Housing Association Limited (Broomleigh)
Community Building Services (CBS) Limited (CBS)
Downland Housing Association Limited (Downland)
Grange Management (Southern) Limited (Grange)
William Sutton Housing Association Limited
(William Sutton Homes)

Affinity Sutton is one of the leading providers of affordable housing in England working in partnership with central and local government as well as local communities.

Objectives and Strategies

The objectives of the Group, through its operating companies, are:

- To develop and maintain affordable homes and sustainable communities for people who are unable to access housing on the open market, and
- To ensure that all our homes meet the requirements of the Decent Homes Standard and to provide high quality services to, and in consultation with, our residents.

To do this the Group continues to use surpluses to provide new homes in its areas of operation in order to meet continuing demand, maintain existing properties and keep rents at affordable levels.

The Board is committed to improving the overall efficiency of the Group by achieving cost savings as set out in its cost reduction plan and by pursuing operational efficiency targets. The Group's financial strength is at the heart of the business and our strong financial condition, is recognised externally. During the year, Standard & Poors maintained the Group's rating at 'A 'and Moody's issued its first rating of the Group at 'Aa2.'

The development partnership formed between the Affinity Homes and William Sutton Groups in advance of their merger succeeded in obtaining funding for a programme of new development throughout all regions of England.

In total, £120.5 million grant funding from the Housing Corporation supports a programme which will result in 2,716 new homes being provided between 2006 and 2008. Between them, the Registered Social Landlords (RSLs) within the Group now have more than 1,400 new homes under development and a pipeline of future projects totalling nearly 6,000 homes.

Affinity Sutton provides business support services to its operating companies. The services provided include finance, audit, risk management, information systems, human resources, housing development, company secretarial, procurement, marketing and publicity. The cost of service provision is fully recovered by way of recharges to Group members.

The Group reviews its operating and financial performance each month through a structured system of balanced scorecard reporting. The Group Executive Team reviews the balanced scorecard each month and the Board reviews performance on a quarterly basis.

Where performance is below expectations, investigations are made and explanations are sought and provided by management.

Operating and Financial Review

Financial Summary

The Group generated a consolidated surplus for the year after tax of £27.1 million (2006: £1.1 million). The Tor Homes de-merger reduced reserves by £21.4 million (2006: £10.8 million resulting from the de-merger of Southdown Housing Association).

The improvement in the underlying surplus position is as a result of an increase in operating surpluses, last year's exceptional costs of £11.9 million dropping out, property sales, including shared ownership, right to buy and other property disposals. In part, this arose from reduced expenditure on revenue major works as the level of capitalisation in William Sutton Homes increased. A lower annual housing depreciation charge also arose in William Sutton Homes following the adoption of revised estimates of residual land value.

Group turnover, at £199.2 million (2006: £183.9 million), increased by 8.3% after taking into account Tor's departure. This increase results from the annual rent increase, new homes coming into management and reduced void rent loss.

The Group's operating costs at £137.3 million (2006: £134.8 million) were £2.5 million higher than last year. After allowing for inflationary increases and the one-off merger related costs, this represents a real reduction in spend on operating costs. This has resulted from merger-related efficiencies, a reduction in major works costs and overhead costs including recruitment and other administration costs. We incurred in the year about £1.0 million one off redundancy and relocation costs associated with the mergers at parent and operating company level.

There were gains on the disposal of properties of £5.2 million (2006: £3.9 million). The net benefit of these disposal proceeds will be invested in the repair and improvement of the Group's properties, in community development and regeneration, and in the provision of new homes.

The net interest charge in the year of £41.1 million (2006: £40.2 million) has increased by 2.2% including interest in Tor Homes.

Report of the Board

The table below sets out key financial information as reported in operating company accounts:

Business Areas	Turnover		Operating surplus	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Broomleigh	**59,339**	55,600	**18,850**	18,713
Downland	**44,805**	41,923	**17,834**	17,250
Grange	**1,554**	1,388	**69**	212
William Sutton Homes	**73,309**	70,630	**20,729**	8,964
Aashyana	**463**	403	**(21)**	28
BHT	**7,898**	8,305	**141**	602
CBS	**8,010**	7,613	**692**	659

The consolidated results of the Group also include turnover of £17.3 million, operating surplus of £3.1 million in respect of Tor Homes.

The individual statutory accounts of the operating companies provide more detailed information on their individual operating performance.

Significant Factors Affecting Our Sector

The Group is affected by a number of external factors including:

- Decent Homes Standard – meeting the Government's requirements by 2010 means continued levels of investment in our properties. High levels of investment in repair and improvement are assumed for the life of the business plan;
- Rent restructuring – this restricts the Group's ability to increase the rents it charges and therefore future income levels are suppressed;
- Grant for Supporting People activity – currently there is downward pressure on funding and restrictions in the level of annual increases;
- Competition for capital grants to develop homes – continued pressure to produce efficiency in our requirement for social housing grant to develop new affordable housing;
- Competing against other developers for land and sites – the introduction of Social Housing Grant for private developers;
- Retaining high quality people – the ability to recruit and retain staff is challenging as we see staff turnover rates increase;
- Efficiency targets for social housing organisations imposed by Government, and
- Expectations from Government – involvement in wider activities including combating ever social exclusion and anti-social behaviour.

Investment for the Future

The Group is continually looking to improve its services to residents. Operating companies carried out resident surveys which indicated strong levels of satisfaction. However, there are opportunities to enhance service delivery further and the operating companies are striving to achieve this in a number of ways:

- *Customer service* - continuing to invest in resident contact management solutions will mean we are able to answer an increasing number of resident related issues at first point of contact. Contact management for Broomleigh and Downland has been centralised in Bromley and managed by Broomleigh through a customer services centre;
- *Asset Management* - general asset management arrangements will be further developed so that the Group can, where possible, bring forward compliance with the Decent Homes Standard and adopt a proactive asset management strategy into the future, and
- *Staff* - we are a people centred business and therefore we will continue to invest in our employees and their development.

Capital Structure and Treasury Management

Capital Structure

Housing properties were valued at £1,798.6 million (2006: £1,739.3 million) and other tangible fixed assets are included at £35.2 million (2006: £36.5 million). These are financed by long term creditors and provisions of £722.7 million (2006: £744.2 million), reserves of £1,104.0 million (2006: £1,016.8 million) and net current liabilities of £7.1 million (2006: £14.7 million).

(a) Tangible Fixed Assets

Housing property assets continue to be shown in the balance sheet at valuation of £1,798.6 million (2006: £1,739.3 million) net of depreciation. This figure reflects Drivers Jonas' accounts valuation carried out at 31 March 2007. In addition there are other non-housing assets at cost of £35.2 million (2006 £36.5 million).

The Group completed over 787 new homes, at a net cost of £79.0 million in 2006/07 and has spent £67.8 million net of grant on development schemes due for completion in the future. Investment in existing properties was £48.0 million, £20.2 million being capitalised. The capitalised element includes expenditure on new windows, new central heating, boiler systems and kitchen improvements.

(b) Working Capital

As at 31 March 2007 there was a cash balance of £25.4 million (2006: £9.3 million). The Group has debtors of £23.4 million (2006: £22.3 million) and creditors of £59.8 million (2006: £54.6 million). The majority of the increase in creditors is due to the 'Disposal Proceeds Fund' and the triennial 'Right to Buy' clawback payment due to the London Borough of Bromley.

(c) Long Term Creditors
At the year-end, £708.9 million (2006: £724.7 million) was due to long term creditors. The net housing loans total £698.7 million (2006: £704.6 million) and £10.2 million (2006: £20.1 million) was due to other long term creditors.

The Balance Sheet includes pension provisions of £13.8 million (2006: £19.4m, including Tor Homes) within 'provision for liabilities and charges'. They relate to London Pension Fund Authority, London Borough of Bromley Pension Fund, the Downland Housing Group Limited Pension and Assurance Scheme, the William Sutton Trust Final Salary Scheme and Hertfordshire County Council Pension Fund. The Social Housing Pension Scheme (SHPS) is a multi employer scheme and as the Group's share of assets and liabilities cannot be disaggregated, no provision can be made.

(d) Reserves
The Group has reserves of £1,104.0 million (2006: £1,017.8 million), an £86.2 million increase on the previous year mainly arising from the £27.1 million retained surplus for the year, a reduction of £21.4 million as a result of the departure of Tor Homes from Affinity Sutton, and the net uplift in the Revaluation Reserve. The Revaluation Reserve account has increased to £860.7 million (2006: £811.4 million) reflecting the updated accounts valuation. The Income and Expenditure Reserve now stands at £236.1 million (2006: £207.5 million).

Treasury Management

The Group Treasury Committee has approved a treasury management strategy for the Group. All financing requirements are reviewed by the Committee and recommended for approval by the Boards of the operating companies. Treasury management performance is reported twice yearly to the Group Treasury Committee and at least annually to the Boards of the Group and the operating companies, including a review of borrowings and compliance with loan covenants. The Group has entered into derivative transactions (principally interest rate swaps and fixed instruments) to manage the Group's exposure to movements in interest rates (refer to note 15 for details). The Group is authorised by the Housing Corporation to enter into third party derivative transactions.

At 31 March 2007, the Group's housing loans were £699.6 million (2006: £712.7 million). Of this £411.3m (58.8%) was fixed or otherwise hedged.

Responsibility for managing interest rates and liquidity risk is delegated to the Group Treasury Committee. It adopts the following policies:

(i) Interest rate risk
The Group finances its operations through a combination of external loans and investment of revenue reserves.

The amount of borrowing and its terms are determined and agreed by Group Treasury Committee. Exposure to floating rates of interest is controlled through the use of interest rate swaps, caps and collars.

(ii) Current liquidity
The Group ensures it has adequate but not excessive cash resources, borrowing arrangements and overdraft facility to enable it to have a level of funds available to meet its planned activities. Cash balance at the year end was £25.4 million (2006: £9.3 million).

(iii) Currency risk
The Group has no currency exposures as all its assets and liabilities are denominated in sterling.

Employees

The Group consults with its employees on matters likely to affect their interests through staff fora in each operating company. Amicus is recognised in Broomleigh Housing Association and Unison is recognised in Downland Housing Association, Community Building Services (CBS) Limited, and for former Ridgehill employees in William Sutton Homes. As well as these formal mechanisms, employees are encouraged to contribute to the running of the business through staff seminars, suggestion schemes and an annual employee attitude survey.

Employees are able to develop their skills and competencies through a structured approach to learning and development, including the opportunity to achieve recognised external qualifications.

The Group employment policies and practices reflect the impact of the Disability Discrimination Act 1995, and the Group is an approved user of the '✓✓' symbol and an Investor in People.

Corporate Governance

Affinity Sutton Group Limited has adopted the recommendations contained in the National Housing Federation's (NHF) revised Code of Governance and complies with this code. The Board is conscious of the need to promote and adhere to best standards of governance. The Group Board regularly reviews its own performance. Following the creation of the new group, policies are being implemented for the annual appraisal of non executive directors and the introduction of individual development plans to assist them in achieving the Board's and their own objectives.

The Group Board is made up of 15 members, which includes representatives from operating company Boards, independent members, the Group Chief Executive, Group Director of Finance and Group Development and New Business Director. There are no current vacancies. Their diverse experiences, skills and independent perspectives provide an effective review and challenge to the activities of the Group. The non-executive directors of the Group Board are remunerated. The Group has adhered to Housing Corporation guidance in relation to its Board remuneration arrangements.

The Board meet regularly to lead, control and monitor the overall performance of the Group. Executive management provide the Board with appropriate and timely information and are available to attend meetings and answer questions. Authority is granted to the Group Chief Executive and the Group Executive management team to implement strategy and manage the Group.

The Board formally delegates specific responsibilities to Group Committees established by the Board, including Audit, Finance and Performance, Remuneration and Treasury. The Committees meet regularly during the course of the year and report to the Board at least once a year. Terms of reference have been agreed for the Board and Committees and these are reviewed periodically.

Report of the Board

Remuneration

The Board has established a Remuneration Committee, which is charged with reviewing the pay and other terms of employment of the Group Executive Directors, providing guidance to the operating companies on remuneration matters, including annual pay reviews, Board appraisal, and succession planning. The Committee acts as a Nominations Committee for the purpose of recruiting non-executive directors to the Group Board and approving on behalf of the Group appointments to operating companies within the Group.

In framing its remuneration policy for executive directors, the Committee is guided by evidence, provided by independent consultants, of pay rates in the affordable housing and other comparable sectors in order to set and review salaries at the levels that will attract and retain people with the skills, knowledge and experience required.

The Committee agreed to increase the salaries of the executive directors and all other staff by 4.2% with effect from 1 April 2007. During the year, a payment of a contractual bonus to each director was agreed, covering the period from 1 April 2005 to 31 March 2006. These payments were triggered by the successful achievement of performance targets.

Executive Directors

The executive directors, listed on page three, hold no interest in the share capital and act as executives within the authority delegated by the Board.

The detailed scrutiny of performance, the development of policy and procedures and expenditure approvals within budget, are carried out by the executive directors as the Group Executive Team, which meets at least once a month for these purposes. Papers are prepared and presented to the Board and its Committees by the Group Executive Team.

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

The Board is responsible for preparing the Board Report and the Financial Statements in accordance with applicable law and regulations.

Industrial and Provident Society law requires the Board to prepare Financial Statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and Parent Association financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Association and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any 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 group and the parent association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Association and enable them to ensure that its financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Association'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 Association's auditors are unaware; and each Board member has taken all the steps that he/she ought to have taken as a Board member to make himself/herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Recruitment of Board Members and Admission of Shareholders

The Board seeks a diverse Board whose members possess the necessary skills and competencies to discharge their responsibilities effectively, who can work together well for the benefit of the Group and who bring skills and experiences from their other activities to add value to debate and decision making.

When vacancies arise, the Board reviews the skills, qualities and experience that it needs from Members, which include general management, financial, legal, housing management, customer service and customer relations. Board members are recruited against a matrix of existing and required skills through recruitment which include interview and assessment and is followed by an induction and training programme.

Shareholders are admitted to ensure there is a proper balance between independent Board members, Local Authority members and Chairs of the operating companies according to the Group company rules.

Statement on the Group's System of Internal Control

Responsibility

The Board of Affinity Sutton Group Limited is the ultimate governing body for the Group and is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations. The Board is responsible for ensuring that adequate systems of control are in place across the Group. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The key means of identifying, evaluating and managing the system of internal controls are:

- Corporate governance arrangements, as highlighted on the previous pages;
- Written financial regulations and delegated authorities;
- Policies and procedures for all key areas of the business and a quality procedure framework, which encourage continuous improvement, this is monitored internally and regulated by an external agency (BSI) under ISO9000:2000;
- Management structures providing balance and focus within the Group;
- A formal Risk Management approach to new business and major new development risks which involve the assessment of each, and action plans to mitigate the worst effects of the risks' occurrence;
- 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 auditor, the Group uses the services of a professional firm of auditors and other specialists as necessary. All audit reports are reviewed by the Group Audit Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented;
- Comprehensive business planning, budgeting and budgetary control arrangements with a monthly reporting cycle that identify variances. These arrangements are supplemented by a monthly 'Balanced Scorecard' management reporting system that allows the Board and senior management to monitor achievements against Key Performance Indicators;
- Regulatory requirements and service objectives and ensuring that variances are investigated and acted upon;
- A Group wide policy and procedure for dealing with suspected fraud and whistleblowing, and
- All significant new investments, major commitments and investment projects are subject to appraisal and individual approval by Group Executive Team and/or Board or Committee members in accordance with the Group's financial regulations.

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

Status

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

Going Concern

After reviewing the Group's budget for 2007/08 and those of its operating companies, and based on normal business planning and control procedures, the Board has a reasonable expectation that Affinity Sutton Group Limited has adequate resources to continue in operational existence for the foreseeable future.

Auditors

A resolution for the reappointment of KPMG LLP as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board of Affinity Sutton Group Limited.

Alan Kilburn
Group Chairman
12 July 2007

Report of the Independent Auditors, KPMG LLP, to the Members of Affinity Sutton Group Limited

Independent Auditors' Report to the Members of Affinity Sutton Group Limited

We have audited the Group and Parent Association Financial Statements (the 'financial statements') of Affinity Sutton Group Limited for the year ended 31 March 2007 which comprise the Consolidated and Association Income and Expenditure Account, the Consolidated and Association Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Surpluses and Deficits, the Note of Consolidated Historical Cost Surpluses and Deficits, the Reconciliations and the related notes. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Association's members, as a body, in accordance with Schedule One paragraph 16 of the Housing Act 1996 and section nine of the Friendly and Industrial and Provident Societies 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 Board and Auditors

The Board's responsibilities for preparing the Board's Report, and the Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), are set out in the Statement of the Board's Responsibilities on page eight.

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 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

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 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. 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 judgments made by the Board in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and 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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the Parent Association's affairs as at 31 March 2007 and of the Group's surplus and the Parent Association's deficit for the year then ended, and
- Have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 July 2007

1 Forest Gate
Brighton Road
Crawley, West Sussex, RH11 9PT

Group Income and Expenditure Account

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	**2007 £'000**	2006 £'000
Turnover	2(a)	**199,163**	183,906
Operating costs	2(a)	**(137,338)**	(134,752)
Operating surplus	2(a)	**61,825**	49,154
Gain on disposal of properties and other fixed assets	2(a)	**5,186**	3,866
Surplus on ordinary activities before interest and taxation	2(a)	**67,011**	53,020
Interest receivable and similar income	6	**860**	623
Interest payable and similar charges	7	**(41,967)**	(40,856)
Other finance income	8	**1,242**	281
Exceptional item – loan restructuring costs	9	-	(11,880)
Surplus on ordinary activities before taxation	5	**27,146**	1,188
Tax on surplus on ordinary activities	10	**(68)**	(69)
Minority interest	27	**(24)**	(24)
Surplus for the year after taxation	18	**27,054**	1,095

All operations are continuing.

Statement of Total Recognised Surpluses and Deficits

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	**2007 £'000**	2006 £'000
Surplus for the financial year		**27,054**	1,095
Actuarial gain on pension schemes		**1,699**	579
Unrealised surplus on revaluation of properties	18	**72,059**	101,055
Total recognised surpluses for the year		**100,812**	102,729

Note of Historical Cost Surpluses and Deficits

FOR THE YEAR ENDED 31 MARCH 2007

		2007 £'000	2006 £'000
Reported surplus on ordinary activities before taxation		**27,146**	1,188
Realisation of property revaluation surpluses of previous years		**2,130**	1,994
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	18	**1,905**	929
Historical cost surplus on ordinary activities before taxation		**31,181**	4,111
Tax on surplus on ordinary activities		**(68)**	(69)
Minority interest		**(24)**	(24)
Historical cost surplus for the year after taxation		**31,089**	4,018

Association Income and Expenditure Account

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	2006 £'000
Turnover	2(a)	**15,636**	10,666
Operating costs		**(15,594)**	(10,646)
Operating surplus		**42**	20
Gain on disposal of fixed assets		**5**	-
Surplus on ordinary activities before interest and taxation		**47**	20
Interest receivable and similar income	6	**47**	32
Interest payable and similar charges	7	**(94)**	(63)
Surplus/(deficit) on ordinary activities before taxation	5	-	(11)
Tax on surplus on ordinary activities	10	**(13)**	10
Deficit for the year after taxation	18	**(13)**	(1)

All operations are continuing.

There are no recognised surpluses or deficits other than the above result.

There is no difference between the deficit on ordinary activities before taxation and the deficit for the financial years and their historical cost equivalents.

Group and Association Balance Sheet

AS AT 31 MARCH 2007

		Group		Association	
		2007	2006	**2007**	2006
	Notes	**£'000**	£'000	**£'000**	£'000
Tangible fixed assets					
Housing property	11	**1,798,579**	1,739,251	**-**	-
Non housing fixed assets	11	**35,209**	36,477	**1,805**	1,492
Total tangible fixed assets		**1,833,788**	1,775,728	**1,805**	1,492
Current assets					
Stock		**76**	169		
Development partnerships work in progress		**-**	6,005	**-**	-
Debtors due within one year	13	**23,430**	22,304	**1,562**	762
amounts falling due after more than one year		**3,880**	981	**-**	-
Short term deposits		**-**	1,100	**-**	-
Cash at bank and in hand		**25,365**	9,323	**308**	40
		52,751	39,882	**1,870**	802
Creditors: amounts falling due within one year	14	**(59,809)**	(54,619)	**(2,386)**	(992)
Net current liabilities		**(7,058)**	(14,737)	**(516)**	(190)
Total assets less current liabilities		**1,826,730**	1,760,991	**1,289**	1,302
Creditors: amounts falling due after more than one year	15	**708,897**	724,676	**1,500**	1,500
Minority interest	27	**-**	144	**-**	-
Provision for liabilities and charges	16	**13,815**	19,373	**-**	-
Capital and reserves					
Share capital	17	**-**	-	**-**	-
Revaluation Reserve	18	**860,740**	811,437	**-**	-
Restricted reserves	18	**28**	64	**-**	-
Designated reserves	18	**168**	223	**-**	-
Income and Expenditure Account	18	**235,248**	205,074	**(211)**	(198)
Negative Goodwill	20	**7,834**	-	**-**	-
		1,826,730	1,760,991	**1,289**	1,302

The financial statements were approved by the Board and were signed on their behalf by:

Group Chairman
Affinity Sutton Group Limited

Board Member
Affinity Sutton Group Limited

Company Secretary
Affinity Sutton Group Limited

12 July 2007

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Net cash flow from operating activities	(i)		**66,027**		52,196
Returns on investments and servicing of finance					
Interest received and similar income		**860**		600	
Loan restructuring costs		-		(11,880)	
Interest paid and similar charges		**(41,967)**		(41,143)	
Net cash outflow from returns on investments and servicing of finance			**(41,107)**		(52,423)
Taxation					
Corporation tax paid		**(95)**		(39)	
Net cash outflow on taxation			**(95)**		(39)
Capital expenditure					
Payments to acquire and develop housing properties		**(143,649)**		(143,604)	
Social housing grant received		**56,880**		34,143	
Payments to acquire other fixed assets		**(3,746)**		(3,835)	
Sale of housing properties		**33,497**		21,019	
Local authority right to buy claw back		**(286)**		(674)	
Sale of other fixed assets		-		238	
Net cash outflow from capital expenditure			**(57,304)**		(92,713)
Net cash flow before management of liquid resources and financing			**(32,479)**		(92,979)
Management of liquid resources					
Fixed deposits			**1,100**		(1,100)
			(31,379)		(94,079)
Financing					
Housing loans repaid	(ii)		-		(330,819)
Housing loans drawn	(ii)		**47,024**		422,801
Repayment of finance leases			**(180)**		(200)
Increase / (decrease) in cash	(ii)		**15,465**		(2,297)

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2007

(i) Reconciliation of operating surplus for the year to net cash flow from operating activities

	2007 £'000	2006 £'000
Operating surplus	**61,825**	49,154
Non cash flow items:		
Depreciation	**6,395**	9,288
Amortisation of loan costs and negative goodwill	**(62)**	15
Impairment of properties	**650**	-
Decrease in stock	**11**	82
Decrease/(increase) in work in progress	**6,005**	(1,488)
FRS 17 adjustment	**(717)**	(668)
(Increase)/decrease in debtors	**(6,415)**	831
Decrease in creditors	**(1,665)**	(5,018)
Net cash flow from operating activities	**66,027**	52,196

(ii) Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Increase in cash in period	**15,465**	(2,297)
Housing loans drawn	**(47,024)**	(422,801)
Acquisition of BHT and Merrimac	**(2,457)**	-
Departure of Tor homes	**62,582**	(1,615)
Amortisation costs	**(15)**	(15)
Cash flow from (increase)/decrease in liquid resources	**(1,100)**	1,100
Financing and loans repaid	-	330,819
Change in net debt resulting from cash flows	**27,451**	(94,809)
Repayment of finance lease	**180**	200
Net debt at 1 April 2006	**(708,550)**	(613,941)
Net debt at 31 March 2007	**(680,919)**	(708,550)

(iii) Reconciliation of net debt

	Cash at bank and in hand £'000	Investment £'000	Finance leases £'000	Housing loan £'000	Net debt £'000
Balance at 1 April 2006	9,236	1,100	(6,183)	(712,703)	(708,550)
Acquisition of Brighton Housing Trust	496	-	-	(3,295)	(2,799)
Acquisition of Merrimac	342	-	-	-	342
Departure of Tor Homes	(818)	-	-	63,400	62,582
Net cash outflow	15,465	(1,100)	180	(47,024)	(32,479)
Other non cash changes	-	-	-	(15)	(15)
Balance at 31 March 2007	**24,721**	**-**	**(6,003)**	**(699,637)**	**(680,919)**

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

1: Accounting Policies

Basis of Accounting
The Group comprised six Registered Social Landlords at the Balance Sheet date, one unregistered business, which is an Industrial and Provident Society, one company limited by guarantee and one company limited by shares. The Financial Statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the Statement of Recommended Practice (SORP) 'Accounting by Registered Social Landlords 2005' and the Accounting Requirements for Registered Social Landlords General Determination 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements.

Basis of Preparation
The Financial Statements are prepared on the historical cost basis of accounting, modified by the revaluation of housing properties.

Basis of Consolidation
The Consolidated Statements incorporate the Financial Statements of all members of the Group as at 31 March 2007 using merger and acquisition accounting as appropriate using the criteria set out in the SORP: Merger accounting has been followed for the combination of Affinity Homes Group, William Sutton and Ridgehill Housing Association; acquisition accounting has been followed for the acquisition of BHT. The results and cash flows of operating companies acquired or disposed of in the year are included in the Group Income and Expenditure Account and the Group Cash Flow Statement from the date of acquisition or up to the date of disposal. On merger, all assets and liabilities are included in the Balance Sheet at fair value.

Turnover
Rental and service charge income from residential and commercial properties is recognised in the Income and Expenditure Account when it falls due. Grants receivable from local authorities in respect of revenue are credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Housing Properties
Completed housing properties are shown on the Balance Sheet at valuation, with subsequent additions at cost. Full revaluations are carried out annually. The aggregate surplus or deficit on the property revaluation is transferred to a Revaluation Reserve. On the disposal of properties held at valuation, the amount relating to the revaluation is realised by the transfer of such amount to the Income and Expenditure Account from the Revaluation Reserve.

The cost of properties is their purchase price, together with incidental costs of acquisition and capitalised repairs and improvements.

Housing properties in the course of construction are stated at cost of works, plus directly attributable development staff costs and interest capitalised during the construction of the property. The Association has a land banking policy which may involve the purchase of land or sites without planning consent or grant allocation. Land bank expenditure is stated at cost and classified as 'housing properties in the course of construction'. No attributable development staff costs or interest costs are capitalised on land banking.

Amortisation of Goodwill
Negative goodwill arising on business combinations in respect of acquisitions represents the difference between the consideration given and the fair value of the net assets of the acquired entity. It is included within reserves and released to the Income and Expenditure Account in the periods in which the fair values of the non monetary assets purchased on the same acquisition are recovered whether through depreciation or sale.

Depreciation and Impairment
Housing properties are depreciated on a straight line basis over their expected useful economic life at an annual rate of 1% on valuation. Freehold land is not depreciated. No depreciation is provided on housing properties in the course of construction.

Depreciation is charged on a straight line basis over the expected useful economic lives of the non-housing fixed assets at the following annual rates:

Leasehold offices	Over period of the lease
Freehold offices	Between 2% and 2.5%
Office furniture and equipment	Between 5% and 25%
Computer equipment and software	25%
Motor vehicles owned	Between 25% and 33%
Leased motor vehicles	Over period of the lease

Investment properties
The Group 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 SSAP 19 in order to give a true and fair view.

Social Housing Grant
Where developments have been financed wholly or partly by Social Housing Grant ('SHG'), the cost of those developments has been reduced by the amount of the grant receivable.

Although SHG is treated as a grant for accounting purposes, it may nevertheless become repayable if the conditions under which the grant was made are not complied with, for example, if the properties to which the grant was designated cease to be used for the provision of affordable rental accommodation.

Recycled Capital Grant Fund
The Association has the option to recycle grant SHG which would otherwise be repayable, for reuse on new developments. If unused within a three year period, it will be repayable to the Housing Corporation with interest. Any unused recycled capital grant held within the fund, which it is anticipated will not be used within one year, is disclosed in the balance sheet under 'creditors: amounts falling due after more than one year'. The remainder is disclosed under 'creditors: amounts falling due within one year'.

Disposal Proceeds Fund
The Disposal Proceeds Fund arises from the net proceeds of sales funded by Voluntary Purchase Grant and must be used to provide replacement properties. The fund is included within creditors as required by the Accounting Requirements for Registered Social Landlords General Determinations 2006.

Fixed asset investments
Fixed asset investments are stated in the Balance Sheet at market value.

Leased assets
Where the Association enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the Balance Sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Income and Expenditure Account, and the capital element which reduces the outstanding obligation for future instalments. All other leases are accounted for as 'operating leases' and the rental charges are charged to the Income and Expenditure Account on a straight line basis over the life of the lease.

Precontract costs
Costs incurred in bidding for and securing contracts for the supply of products and services under the Private Finance Initiative are recognised as expenses as incurred up to the date of the announcement of the preferred bidder.
Where the Group is successful in attaining preferred bidder status, those costs that are incurred after attaining preferred bidder status are directly attributable to the contract and are recognised as an asset.

Major repairs
Major repairs are capitalised to the extent that they are improvements to the property, which reduce future repair costs, extend its useful economic life or result in an improvement in the revenue streams through increased rental income. Major repairs are charged to the Income and Expenditure Account as incurred in other circumstances.

No provisions are made for future major repairs as future maintenance expenditure is fully provided in the Group's long term Business Plan.

Taxation
Affinity Sutton Group Limited, the parent, and its operating companies, Grange Management (Southern) Limited, Affinity Funding Limited and Community Building Services (CBS) Limited are liable to corporation tax at the prevailing rate of taxation. The remaining operating companies undertake charitable activities and as such are not liable to corporation tax.

Deferred Tax
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. At March 2007, discounted deferred tax assets/liabilities are not material and hence no provision is made.

1: Accounting Policies (continued)

Value Added Tax
The Group's Value Added Tax (VAT) affairs are dealt with under a Group registration in the name of Affinity Sutton Group Limited. The Group recovers only a small proportion of input VAT. Expenditure is therefore shown inclusive of VAT with non attributable tax recovered being credited against management expenses.

Pension Costs
The Group participates in seven pension schemes; six are defined benefit schemes administered by the London Pensions Fund Authority Pension Fund, the London Borough of Bromley Pension Fund, Downland Housing Group Limited Pension & Assurance Scheme, the Social Housing Pension Scheme, ('SHPS'), the Hertfordshire County Council Pension Fund and the William Sutton Trust Final Salary Scheme providing benefits based on final pensionable pay. The other is a defined contribution scheme administered by Friends Provident. SHPS is accounted for as a defined contributions scheme. The assets of the schemes are held separately from those of the Group.

Contributions to pension schemes are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice. The cost of providing pensions is charged to the Income and Expenditure Account over the periods during which the Group benefits from the employees' services. Lump sum payments are being made to reduce the deficits in schemes closed to new entrants.

The Group has fully adopted accounting standard FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements.

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.

Each pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in a scheme surplus/deficit is split between operating charges, finance items and, in the Statement of Total Recognised Surpluses and Deficits, actuarial gains and losses.

Restricted Reserves
The restricted reserves relate to cash reserves from the social housing agency fund which will fund future housing research initiatives.

Designated Reserves
The designated reserve represents funds donated to William Sutton Housing Association Limited which have been earmarked for specific activities not normally supported by the Association.

Housing 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 based on the loan drawdown amounts.

Financial costs relating to the renegotiation of existing facilities are charged to the Income and Expenditure Account as they are incurred.

2: Turnover, Cost of Sales, Operating Costs and Operating Surplus

2(a) Particulars of Turnover, Cost of Sales, Operating Costs and Operating Surplus before Interest and Taxation

(i) Group

	2007 Turnover £'000	2007 Cost of sales £'000	2007 Operating costs £'000	2007 Operating surplus /(deficit) £'000	2006 Turnover £'000	2006 Operating surplus /(deficit) £'000
Social housing activities						
Income and expenditure from social housing lettings	**186,649**	-	**(125,170)**	**61,479**	173,616	48,056
Other income and expenditure	**2,467**	-	**(2,807)**	**(340)**	3,349	(1,450)
Total	**189,116**	-	**(127,977)**	**61,139**	176,965	46,606
Other social housing activities						
Supporting people contract income	**1,885**	-	**(1,960)**	**(75)**	945	165
Other services	**1,671**	-	**(1,797)**	**(126)**	2,405	732
Total	**3,556**	-	**(3,757)**	**(201)**	3,350	897
Total social housing activities	**192,672**	-	**(131,734)**	**60,938**	180,315	47,503
Non social housing activities						
Income and expenditure from lettings	**871**	-	**(296)**	**575**	798	550
Income relating to commercial tenancies	**1,560**	-	**(909)**	**651**	1,325	766
Other	**4,060**	-	**(4,399)**	**(339)**	1,468	335
Total social and non-social housing activities	**199,163**	-	**(137,338)**	**61,825**	183,906	49,154
Net surplus/(deficit) from disposals						
Right to buy properties	**4,294**	**(3,463)**	**(137)**	**694**	2,338	(230)
Voluntary purchase grant sales	**767**	**(768)**	-	**(1)**	-	(10)
Shared ownership properties	**1,285**	**(466)**	**(5)**	**814**	1,529	1,158
Other housing stock	**8,288**	**(4,543)**	**(71)**	**3,674**	4,761	2,948
Other fixed assets	**15**	**(10)**	-	**5**	-	-
Total	**14,649**	**(9,250)**	**(213)**	**5,186**	8,628	3,866
Surplus before interest and taxation				**67,011**		53,020

(ii) Association

The Association's turnover includes corporate recharges to operating companies and income for information management and development services.

Notes to the Financial Statements
YEAR ENDED 31 MARCH 2007

2: Turnover, Cost of Sales, Operating Costs and Operating Surplus

2(b) Particulars of Income and Expenditure from Social Housing Lettings

	General needs housing £'000	Supported housing/ housing for older people £'000	Shared ownership accommodation £'000	Leasehold £'000	Key worker £'000	Total 2007 £'000	Total 2006 £'000
Income from social housing lettings							
Rent	155,872	11,045	2,331	18	3,110	**172,376**	161,601
Charges for support services	1,254	2,667	-	-	-	**3,921**	3,792
Service charges	7,018	2,002	113	1,775	2	**10,910**	10,000
Garage rents	1,208	-	-	-	-	**1,208**	804
Gross rents receivable	165,352	15,714	2,444	1,793	3,112	**188,415**	176,197
Rent losses from voids	(2,654)	(579)	(40)	-	(144)	**(3,417)**	(3,808)
Net rents receivable	162,698	15,135	2,404	1,793	2,968	**184,998**	172,389
Revenue grants from local authorities	1,425	128	-	36	-	**1,589**	1,148
Supported housing management grant	57	-	-	-	-	**57**	-
Other income	5	-	-	-	-	**5**	79
Total income from social housing lettings	**164,185**	**15,263**	**2,404**	**1,829**	**2,968**	**186,649**	**173,616**
Expenditure on social housing letting activities							
Services	(14,050)	(3,711)	(191)	(1,340)	(335)	**(19,627)**	(17,004)
Management	(23,474)	(2,568)	(313)	(728)	(490)	**(25,573)**	(27,507)
Care and support services	(72)	(365)	-	-	-	**(437)**	(1,582)
Routine maintenance (including cyclical)	(36,916)	(3,680)	(19)	-	(790)	**(41,405)**	(37,413)
Rent losses from bad debts	(1,170)	(51)	-	(120)	(24)	**(1,365)**	(1,122)
Major repairs expenditure	(25,150)	(2,255)	-	-	(329)	**(27,734)**	(31,311)
Development	(2,064)	-	-	(129)	(1)	**(2,194)**	(3,210)
Depreciation on housing properties	(3,662)	(134)	(87)	-	(5)	**(3,888)**	(5,134)
Rent paid	(683)	(214)	-	-	(5)	**(902)**	(935)
Other costs	-	(45)	-	-	-	**(45)**	(342)
Total expenditure on social housing lettings	**(107,241)**	**(13,023)**	**(610)**	**(2,317)**	**(1,979)**	**(125,170)**	**(125,560)**
Operating surplus/(deficit) on social housing letting activities	**56,944**	**2,240**	**1,794**	**(488)**	**989**	**61,479**	**48,056**

3: Directors' Emoluments

The directors are defined for the purpose of emoluments as members of the Board, 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:

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Emoluments (including compensation for loss of office and benefits in kind)				
Non-Executive board members	**131**	85	**73**	-
Executive team	**2,743**	2,162	**671**	427
Pension contributions - in respect of services as directors	**248**	175	**67**	36
	3,122	2,422	**811**	463

Six directors received £210,000 in total for loss of office as directors in line with the Group's redundancy terms (2006: 4 directors, £347,628)

The main benefit in kind which directors received in addition to those available to staff, is the use of a company car or an equivalent non-pensionable cash allowance. The monetary value of a company car is calculated by reference to assessments published by HM Revenue and Customs. In addition, directors benefit from private health care.

Emoluments (excluding compensation for loss of office and pension contributions) of the highest paid director were as follows:

	Group		Association	
	2007	2006	**2007**	2006
	£	£	**£**	£
Basic salary	**167,486**	135,742	**167,486**	135,742
Bonus	**24,000**	24,851	**24,000**	24,851
Pay in lieu of leave	**4,154**	5,038	**4,154**	5,038
Taxable benefits	**18,188**	24,846	**18,188**	24,846
	213,828	190,477	**213,828**	190,477
Pension contributions of the highest paid director	**19,596**	15,882	**19,596**	15,882

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Expenses reimbursed to directors not chargeable to United Kingdom income tax	**70**	85	**36**	22

Notes to the Financial Statements
YEAR ENDED 31 MARCH 2007

4: Employee Information

The average monthly number of persons including directors (excluding the non-executive Board members) employed during the year was:

	Group		Association	
	2007	2006	**2007**	2006
	Number	Number	**Number**	Number
Average number of Employees	**1,680**	1,481	**126**	98
Full time equivalent	**1,507**	1,303	**119**	93

	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Staff Costs:				
Wages and salaries	**38,964**	33,415	**5,660**	3,885
Social security costs	**3,276**	2,708	**518**	348
Pension costs (note 23)	**4,514**	4,177	**710**	591
	46,754	40,300	**6,888**	4,824

The increase in Association staff numbers and costs reflects the transfer of Group Centre staff to Affinity Sutton Group Limited on the merger with William Sutton Group. The increase in Group staff numbers and costs reflects the acquisition of BHT.

5: Surplus on Ordinary Activities before Taxation

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Surplus/(deficit) on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation	**6,194**	8,401	**560**	412
Impairment	**851**	888	-	-
Charitable donations	**63**	59	-	-
Operating lease rentals	**2,618**	1,560	**354**	354
Amortisation of negative goodwill	**(79)**	-	-	-
Auditors remuneration:				
in capacity as auditors	**229**	204	**53**	41
in respect of other services	**70**	179	**40**	37
Other revenue grants	**822**	772	-	-

6: Interest Receivable and Similar Income

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Interest receivable and similar income	**852**	623	**47**	32
Income from other investments	**8**	-	-	-
	860	623	**47**	32

7: Interest Payable and Similar Charges

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Interest on loans and overdrafts	**43,637**	42,469	**90**	60
Interest payable on finance leases	**443**	425	**4**	3
Other charges	**751**	124	-	-
	44,831	43,018	**94**	63
Less: interest capitalised	**(2,864)**	(2,162)	-	-
	41,967	40,856	**94**	63

8: Other Finance Income

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Expected return on pension scheme assets	**6,901**	5,563	-	-
Interest on pension scheme liabilities	**(5,659)**	(5,282)	-	-
	1,242	281	-	-

9: Exceptional Item

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Loan restructuring costs	-	11,880	-	-

In December 2005 the Group restructured the majority of its loans. The majority of the existing loans were repaid and new loans taken out by Affinity Funding Limited, a member of the Group. The prepayment costs incurred in breaking the loan agreements in respect of £25.8 million of the loans were treated as an exceptional item.

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

10: Taxation

Analysis of charge/(credit) in period

UK Corporation Tax

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Current tax on income for the period	**43**	87	**13**	-
Adjustment in respect of prior periods	**25**	(18)	-	(10)
Total tax charge / (credit)	**68**	69	**13**	(10)

Factors affecting the tax charge for the period:

The current tax charge for the Group is lower (2006: lower) for the period than the 30% (2006: 30%) standard rate of corporation tax in the UK. The differences are explained below.

Current tax reconciliation

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Surplus / (deficit) on ordinary activities before tax	**27,146**	1,188	-	(11)
Current tax at 30%	**8,144**	356	-	(3)
Effects of:				
Expenses not deductible for tax purposes	**12**	(2)	**8**	-
Marginal tax relief	**(7)**	(9)	**(2)**	-
Capital allowances for period in excess of depreciation	**8**	-	**7**	-
Charitable surpluses not taxed	**(7,895)**	(233)	-	-
Group relief	**(2)**	-	-	-
Losses unutilised	-	3	-	3
Gift aid	**(217)**	-	-	-
FRS 17 Charges	-	(15)	-	-
Other short term timing differences	-	(13)	-	-
Total current tax charge (see above)	**43**	87	**13**	-

11: Tangible Fixed Assets

Housing Property - Group

	Housing properties £'000	Housing properties in the course of construction £'000	Shared ownership properties £'000	Leasehold improvements £'000	Total £'000
Cost/Valuation					
At 1 April 2006	1,610,092	86,722	42,437	-	1,739,251
Departure of Tor Homes	(72,683)	(1,997)	(13,144)	-	(87,824)
Acquisition	8,877	-	-	425	9,302
Additions	20,171	123,437	67	-	143,675
Transfers	-	(31)	31	-	-
Proceeds from first tranche shared ownership sales	(722)	(12,868)	(3,377)	-	(16,967)
Schemes completed	104,607	(120,363)	15,756	-	-
Social Housing Grant	(37,163)	(6,983)	(4,152)	-	(48,298)
Other grant	(810)	(80)	-	-	(890)
Revaluation	60,897	-	7,316	-	68,213
Impairment	(650)	-	-	-	(650)
Disposals - cost	(4,665)	-	(340)	-	(5,005)
Disposals - revaluation	(1,860)	-	(270)	-	(2,130)
At 31 March 2007	**1,686,091**	**67,837**	**44,324**	**425**	**1,798,677**
Depreciation					
At 1 April 2006	-	-	-	-	-
Acquisition	(334)	-	-	(71)	(405)
Charge for year	(3,025)	-	(107)	(27)	(3,159)
Revaluation	3,359	-	107	-	3,466
At 31 March 2007	-	-	-	**(98)**	**(98)**
Net book value					
At 31 March 2007	**1,686,091**	**67,837**	**44,324**	**327**	**1,798,579**
At 31 March 2006	1,610,092	86,722	42,437	-	1,739,251
Net book value of housing assets at 31 March 2007 is represented by:					
Gross cost	1,411,606	107,502	48,034	1,128	1,568,270
Social Housing Grant	(566,923)	(39,544)	(15,546)	-	(622,013)
Other Grant	(6,226)	(121)	-	(703)	(7,050)
Depreciation	-	-	-	(98)	(98)
Revaluation surplus	847,634	-	11,836	-	859,470
	1,686,091	**67,837**	**44,324**	**327**	**1,798,579**

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

11: Tangible Fixed Assets (continued)

Housing Property - Group

	Housing properties £'000	Housing properties in the course of construction £'000	Shared ownership properties £'000	Leasehold improvements £'000	Total £'000
Social Housing Grant					
At 1 April 2006	(527,376)	(34,051)	(11,394)	-	(572,821)
Departure of Tor Homes	9,442	1,491	-	-	10,933
Acquisition	(11,176)	-	-	-	(11,176)
Schemes completed	(11,398)	11,630	-	-	232
Received in year	(26,634)	(18,614)	(4,290)	-	(49,538)
Eliminated on disposal	219	-	138	-	357
At 31 March 2007	**(566,923)**	**(39,544)**	**(15,546)**	-	**(622,013)**
Other Grant					
At 1 April 2006	(5,416)	(41)	-	(703)	(6,160)
Schemes completed	(810)	810	-	-	-
Received in year	-	(890)	-	-	(890)
At 31 March 2007	**(6,226)**	**(121)**	-	**(703)**	**(7,050)**

	2007 £'000	2006 £'000
Housing Properties comprise		
Freeholds	**1,741,722**	1,685,399
Long Leaseholds	**56,531**	54,847
Short Leaseholds	**326**	-
	1,798,579	1,740,246

Development and major works additions and improvements to housing properties during the year include capitalised interest of £2,864,166 (2006: £2,161,861) and capitalised administration costs of £2,551,188 (2006:£1,622,992).

The historic cost of completed properties at the end of the year was £871,272,000 (2006: £843,958,000).

Total expenditure in 2007 on works to existing properties was £47,972,000 (2006: £47,152,000) of which £20,238,000 (2006: £17,862,000) has been capitalised.

A valuation was carried out as at 31 March 2007 by Drivers Jonas, the Group's professional external valuer. The valuation has been prepared in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Model. The valuation method discounts the cash flow from rental income less management and repairs expenditure to their present value using a discount rate. The discount rates applied range from 5.25% to 7.25%, but 5.25% has been applied to the core rental stock. The rental income growth assumption is in line with the Group's rent plan to meet target rents by 2012 under the rent restructuring regime and thereafter assumes growth of +0.5% above inflation per annum.

Drivers Jonas has also reviewed and reported on an appropriate residual land value for the Group's housing stock, which in turn determines the annual housing property depreciation charge. The specific residual land value is estimated in a range between 85% and 99% by Drivers Jonas (2006: 65% and 85%).

11: Tangible Fixed Assets (continued)

Non-housing fixed assets - Group

	Freehold offices £'000	Leasehold offices £'000	Office equipment and cars £'000	Investment properties £'000	Total £'000
Cost/Valuation					
As at 1 April 2006	28,683	1,225	25,842	2,841	58,591
Departure of Tor Homes	(1,948)	-	(2,589)	-	(4,537)
Acquisitions	754	-	294	-	1,048
Additions	838	139	2,505	140	3,622
Disposals	-	-	(607)	-	(607)
Revaluation	-	-	-	380	380
At 31 March 2007	**28,327**	**1,364**	**25,445**	**3,361**	**58,497**
Acquisition Grants	-	**(26)**	**(5)**	-	**(31)**
Depreciation					
At 1 April 2006	(3,110)	(216)	(18,788)	-	(22,114)
Departure of Tor Homes	175	-	1,679	-	1,854
Acquisitions	(103)	-	(209)	-	(312)
Charge for year	(626)	(100)	(2,309)	-	(3,035)
Impairment	(201)	-	-	-	(201)
Eliminated on disposal	-	-	551	-	551
At 31 March 2007	**(3,865)**	**(316)**	**(19,076)**	-	**(23,257)**
Net book value at 31 March 2007	**24,462**	**1,022**	**6,364**	**3,361**	**35,209**
Net book value at 31 March 2006	25,573	1,009	7,054	2,841	36,477

	2007 £'000	2006 £'000
Net book values		
Leased motor vehicles	**125**	157
Depreciation charge for the year		
Leased motor vehicles	**61**	95

A commercial valuation on investment properties was carried out as at 31 March 2007 by Drivers Jonas on an open market value basis as defined in the Royal Institute of Chartered Surveyors Appraisal and Valuation Model.

The main assumption of the valuation was a capitalised ground rental income at a yield of 6.0% 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% in accordance with Leasehold Valuation Tribunal decisions.

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11: Tangible Fixed Assets (continued)

Non-housing fixed assets - Association

	Office Equipment & Cars £'000
Cost/Valuation	
As at 1 April 2006	2,175
Additions	883
Disposals	(34)
At 31 March 2007	**3,024**
Depreciation	
At 1 April 2006	(683)
Charge for year	(560)
Eliminated on disposal	24
At 31 March 2007	**(1,219)**
Net book value at 31 March 2007	**1,805**
Net book value at 31 March 2006	1,492

12: Fixed Asset Investments

Fixed Asset Investments - Group

	2007 £'000	2006 £'000
At the beginning of the year	-	2
Change in market value	-	-
Disposal	-	(2)
At the end of the year	-	-
Historic Cost	-	-

13. Debtors

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts falling due within one year				
Rents and service charges	**13,144**	12,396	-	-
Provision for bad debts	**(4,944)**	(4,082)	-	-
	8,200	8,314	-	-
Social Housing Grant receivable	**3,354**	5,390	-	-
Amounts receivable from Group undertakings	-	-	**839**	86
Other debtors and prepayments	**11,876**	8,600	**723**	676
	23,430	22,304	**1,562**	762
Amounts falling due after one year				
Loan to other RSL	**3,872**	967		
Employee Loans	**8**	14		
	3,880	981		
Total Debtors	**27,310**	23,285		

14: Creditors: amounts falling due within one year

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Bank Overdraft – unpresented cheques	**644**	87	-	-
Obligations under finance leases (see note 15)	**199**	202	-	-
Trade creditors	**6,017**	13,151	**74**	60
Rent & service charges received in advance	**245**	1,383	-	-
Amounts payable on housing development and major repairs	**2,157**	5,995	-	-
Recycled Capital Grant Fund	**1,975**	1,760	-	-
Disposal Proceeds Fund	**7,047**	633	-	-
Amount payable to group undertakings	-	-	**34**	42
Other taxation and social security	**752**	1,090	**289**	188
Accruals	**20,747**	16,017	**1,945**	670
Other creditors	**15,088**	6,107	**31**	32
Corporation tax	**30**	57	**13**	-
London Borough of Bromley	**3,966**	-	-	-
Housing loans (see note 15)	**942**	8,137	-	-
	59,809	54,619	**2,386**	992

15: Creditors: amounts falling due after more than one year

	Group		Association	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Housing loans	**701,196**	706,523	-	-
Loan set up costs	**(2,501)**	(1,957)	-	-
Net housing loans	**698,695**	704,566	-	-
Recycled Capital Grant Fund	**316**	653	-	-
Obligation under finance leases	**5,804**	5,981	-	-
London Borough of Bromley	-	3,087	-	-
Loan from Broomleigh	-	-	**1,500**	1,500
Disposal Proceeds Fund	**4,082**	10,389	-	-
	708,897	724,676	**1,500**	1,500

Housing loans

	2007	2006
	£'000	£'000
Loans	**701,196**	706,523
Loan set up costs	**(2,501)**	(1,957)
	698,695	704,566
Repayable, otherwise than by instalments as follows:		
Within one year	**942**	8,137
Between one and two years	**1,023**	2,978
Between two and five years	**3,228**	16,347
In five years or more	**694,444**	685,241
	699,637	712,703

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15: Creditors: amounts falling due after more than one year (continued)

Affinity Sutton Group Limited has £1,071.5 million loan facilities with nine banks. The facilities are hedged as follows:

Market swaps outside loan agreement		Group	
		2007	2006
	Maturity	**£m**	£m
Fixed rate 4.69%	25.01.2036	**60.0**	60.0
Index linked (RPI + 1.63%)	21.07.2036	**25.0**	-
Index linked (RPI +1.70%)	18.08.2036	**25.0**	-
Fixed rate 4.715%	20.12.2021	**10.0**	-
Fixed rate 6.5443%	14.08.2028	**8.8**	9.0
Fixed rate 6.3058%	14.08.2023	**4.4**	4.5
Fixed rate 5.9758%	14.08.2028	**4.4**	4.5
Fixed rate 5.4953%	24.10.2012	**5.0**	5.0
Fixed rate 5.5853%	16.07.2021	**5.0**	5.0
Fixed rate 5.8103%	24.10.2009	**5.0**	5.0
Total hedged at 31 March		**152.6**	93.0
Fixed rate loans			
Loans repayable on maturity fall due between 1 year and 28 years from the balance sheet date. Applicable interest rates range from 4.777% to 11.639%		**216.2**	247.7
Fixed rate 2038 bond 6.81%		**39.1**	39.1
Total fixed at 31 March		**255.3**	286.8
Total unhedged at 31 March		**291.8**	332.5
Total indexed linked at 31 March		**2.4**	2.4
Finance costs capitalised		**(2.5)**	(2.0)
Total Housing Loans		**699.6**	712.7

Treasury Management Strategy

The Group Treasury Committee has approved a treasury management strategy for the Group. All financing requirements are reviewed by the Group Treasury Committee and recommended for approval by the Boards of the operating companies. Treasury management performance is reported twice yearly to the Group Treasury Committee and at least annually to the Boards of the Group and the operating companies, including a review of borrowing and compliance with loan covenants. The Group has entered into derivative transactions (principally interest rate swaps and fixed instruments) to manage the Group's exposure to movements in interest rates. The Group is authorised by the Housing Corporation to enter into third party derivative transactions.

Responsibility for managing interest rate and liquidity risk is delegated to the Group Treasury Committee. It adopts the following policies:

Interest rate risk

- The amount of borrowing and its terms are determined and agreed by Group Treasury Committee. Exposure to floating rates of interest is controlled through the use of interest rate swaps, caps and collars, as approved by the Housing Corporation.

Current liquidity

- Affinity Sutton Group Limited ensures it has adequate but not excessive cash resources, borrowing arrangements and overdraft facilities to enable it to have a level of funds available to meet its planned activities.

Currency Risk

- Affinity Sutton Group Limited has no currency exposures as all its assets and liabilities are denominated in sterling.

Fair values

- The fair value of the Group's long term borrowing is £744.0 million.

15: Creditors: amounts falling due after more than one year (continued)

Sources of finance - Group

	2007 £'000	2006 £'000
Banks and building societies	**646,308**	659,005
Capital Markets	**43,045**	39,167
Other financial institutions	**10,284**	14,531
	699,637	712,703

Obligations under finance leases - Group

	2007 £'000	2006 £'000
Due in less than one year	**199**	202
Due between one and two years	**252**	334
Due between two and five years	**579**	544
In five years or more	**4,973**	5,103
	6,003	6,183

Recycled Capital Grant Fund

	2007 £'000	2006 £'000
At 1 April	**2,413**	2,296
Grants recycled	**205**	730
Interest accrued	**103**	79
Utilisation of fund	**(396)**	(692)
Departure of Tor Homes	**(34)**	-
At 31 March	**2,291**	2,413

Disposal Proceeds Fund

	2007 £'000	2006 £'000
At 1 April	**11,022**	8,562
Additions	**1,661**	2,665
Interest accrued	**543**	450
Utilisation of fund	**(1,644)**	(655)
Departure of Tor Homes	**(453)**	-
At 31 March	**11,129**	11,022

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16: Provision for Liabilities and Charges - Group

Pension Schemes	**2007** **£'000**	2006 £'000
Downland Housing Group Limited Pension & Assurance Scheme	**2,008**	3,069
London Pensions Fund Authority Pension Fund	**3,238**	3,807
London Borough of Bromley Pension Fund	**4,725**	4,309
William Sutton Trust Final Salary Scheme	**500**	1,700
Hertfordshire County Council Pension Fund	**3,344**	4,620
Devon County Council Pension Scheme	-	1,867
Deferred tax		
At 31 March	-	1
	13,815	19,373

In implementing FRS 17 'Retirement Benefits' the Group has recognised the above pension fund liabilities (see note 23).

17: Share Capital - Association

	2007 **Number**	2006 Number
Shares of £1 allotted, issued and fully paid		
At beginning of year	**64**	64
Redeemed during the year	**(40)**	-
At the end of the year	**24**	64

These shares carry no dividend rights and are cancelled on cessation of membership of Affinity Sutton Group Limited. Each member has the right to vote at members' meetings.

18: Reserves - Group

	Revaluation Reserve £'000	**Restricted Reserves £'000**	**Designated Reserves £'000**	**Income and Expenditure Account £'000**	**Total £'000**
At 1 April 2006	811,437	64	223	205,074	1,016,798
Departure of Tor Homes	(18,721)	-	-	(2,669)	(21,390)
Surplus for the year	-	-	-	27,054	27,054
Stock revaluation March 2007	72,059	-	-	-	72,059
Social Housing Agency fund applied	-	(36)	-	-	(36)
Transfer on disposal of properties	(2,130)	-	-	2,130	-
Transfer for depreciation relating to revaluation	(1,905)	-	-	1,905	-
Transfer from other reserves	-	-	(55)	55	-
Actuarial gains on pension scheme liability	-	-	-	1,699	1,699
At 31 March 2007	**860,740**	**28**	**168**	**235,248**	**1,096,184**

18: Reserves (continued)

Association

	Income and Expenditure Account £'000
At 1 April 2006	
At beginning of year	(198)
Deficit for the year	(13)
At 31 March 2007	**(211)**

19: Acquisitions and Mergers

On 31 July 2006 Downland acquired the net assets of Merrimac Housing Association Limited. On 1 September 2006 William Sutton Homes acquired Brighton Housing Trust ('BHT'). Both transactions have been accounted for as acquisitions.

Set out below are the net assets acquired, consideration and negative goodwill:

	BHT				Merrimac			
	Book Value £'000	Accounting Policy Adjustments £'000	Fair Value Adjustments £'000	Fair Value £'000	Book Value £'000	Accounting Policy Adjustments £'000	Fair Value Adjustments £'000	Fair Value £'000
Net assets acquired								
Fixed assets - housing properties	3,590	5,308	-	8,898	51	-	-	51
Fixed assets - other	705	-	-	705	4	-	-	4
Fixed assets - investments	-	-	-	0	-	-	-	-
Work in progress	866	-	-	866	-	-	-	-
Debtors	775	-	-	775	-	-	-	-
Cash	496	-	-	496	342	-	-	342
Creditors	(4,076)	-	(148)	(4,224)	-	-	-	-
	2,356	5,308	(148)	7,516	397	-	-	397
Negative goodwill on acquisition				(7,516)				(397)
Satisfied by consideration				-				-

Housing properties and fixed interest loans have been revalued to fair value.

Included in the consolidated Income and Expenditure Account are the following amounts in respect of BHT and Merrimac from the date of acquisition:

	BHT £'000	Merrimac £'000
Income	4,341	3
Operating costs	(4,475)	(2)
Operating (deficit)/surplus	(134)	1
Gain on disposal of properties	444	-
Interest receivable	26	-
Interest payable	(90)	-
Surplus on ordinary activities after taxation	246	1

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19: Acquisitions and Mergers (continued)

On 2 October 2006 the Affinity Homes Group and William Sutton Group merged to form the Affinity Sutton Group.

(i) Analysis of consolidated Income and Expenditure Account for the 12 months ended 31 March 2007.

	William Sutton Group 6 months ended 30 September 2006 £'000	Affinity Homes Group 6 months ended 30 September 2006 £'000	Affinity Sutton Group 6 months ended 31 March 2007 £'000	Total 12 months ended 31 March 2007 £'000
Turnover	45,517	52,514	101,132	199,163
Operating costs	(33,166)	(33,943)	(70,229)	(137,338)
Gain on disposal of properties and other fixed assets	432	2,025	2,729	5,186
Operating surplus	12,783	20,596	33,632	67,011
Net interest payable	(8,142)	(11,768)	(19,955)	(39,865)
Surplus on ordinary activities before taxation	4,641	8,828	13,677	27,146
Tax on surplus on ordinary activities	(20)	(14)	(34)	(68)
Minority interest	(12)	-	(12)	(24)
Surplus on ordinary activities after taxation	**4,609**	**8,814**	**13,631**	**27,054**

(ii) Analysis of consolidated Income and Expenditure Account for the 12 months ended 31 March 2006.

	William Sutton Group 12 months ended 31 March 2006 £'000	Affinity Homes Group 12 months ended 31 March 2006 £'000	Total 12 months ended 31 March 2006 £'000
Turnover	85,321	98,585	183,906
Operating costs	(72,661)	(62,091)	(134,752)
Cost of property sales	1,264	2,602	3,866
Operating surplus	13,924	39,096	53,020
Other non-operating exceptionals	-	(11,880)	(11,880)
Net interest payable	(15,407)	(24,545)	(39,952)
Surplus on ordinary activities before taxation	(1,483)	2,671	1,188
Tax on surplus on ordinary activities	(21)	(48)	(69)
Minority interest	(24)	-	(24)
Surplus on ordinary activities after taxation	**(1,528)**	**2,623**	**1,095**

(iii) Analysis of net assets at 30 September 2006.

	William Sutton Group £'000	Affinity Homes Group £'000	Accounting Policy Alignments £'000	Total £'000
Net assets as at 30 September 2006	714,592	1,060,817	(995)	1,774,414

20: Negative Goodwill

The negative goodwill is amortised over the remaining useful lives of the underlying housing properties, being 100 years.

	Negative goodwill on acquisition £'000	Amortised/ released in year £'000	At 31 March 2007 £'000
BHT	7,516	(75)	7,441
Merrimac	397	(4)	393
	7,913	**(79)**	**7,834**

21: Commitments

Group capital commitments

	2007 £'000	2006 £'000
Capital expenditure contracted for but not provided for in the financial statements	**127,216**	41,810
Capital expenditure authorised by the Board not contracted for	**90,813**	116,908

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

	2007 £'000	2006 £'000
Land and buildings		
Expiry date:		
Within one year	**597**	165
Between one and two years	**215**	103
Between two and five years	**517**	271
After five years	**1,104**	483
	2,433	1,022
Plant and machinery		
Expiry date:		
Within one year	**82**	30
Between one and two years	**7**	-
Between two and five years	**450**	147
After five years	-	-
	539	177

22: Accommodation in Management – Group

Number of units	Market Rent	Supported	General Needs Housing	Shared Ownership	Leasehold	Key worker	Student	Total
As at 1 April 2006	**25**	**4,517**	**39,870**	**1,000**	**7,131**	**752**	**55**	**53,350**
Tor Homes	-	(584)	(2,416)	(160)	-	-	-	(3,160)
Net movement 2007	(1)	175	579	169	532	(54)	-	1,400
As at 31 March 2007	**24**	**4,108**	**38,033**	**1,009**	**7,663**	**698**	**55**	**51,590**

Managed on behalf of others: 2,192 units (2006: 3,083)
Owned and managed: 49,398 units / bed spaces (2006: 50,267)
Managed by others: 698 units / bed spaces (2006: 2,015)

23: Pensions

During the 2006 / 2007 financial year the Group participated in ten pension schemes. Seven are defined benefit final salary pension schemes: the London Pensions Fund Authority Pensions Fund, the Downland Housing Group Pension & Assurance Scheme, the London Borough of Bromley Pension Fund, the Social Housing Pension Scheme ('SHPS'), the William Sutton Trust Final Salary Scheme, the Hertfordshire County Council Pension Fund and the Devon County Council Pension Scheme. All defined benefit schemes were closed to new entrants from 31 August 2002 except for SHPS. The other schemes are defined contribution schemes including a scheme administered by Friends Provident, which was closed to new entrants from 1 April 2005.

The Group Chief Executive is an ordinary member of the Social Housing Pension Scheme and does not have any enhanced or special terms.

The pension charge paid by the Group for the year for these schemes was £4,514,000 (2006: £4,177,000). The cost is assessed in accordance with advice from qualified actuaries.

The details of the schemes are set out below:

London Pensions Fund Authority Pensions Fund ('LPFAPF')
The Group is one of a number of employers participating in the fund. This fund provides members with benefits related to pay and services at rates that are defined under the Local Government Superannuation Regulations. To finance these benefits assets are accumulated in the fund and held separately from the assets of the Group.

The fund is valued every three years and the last actuarial valuation took place as at 31 March 2004.

From 1 April 2006 the contribution rate will be 11.6% of pensionable salaries for future service benefits plus an annual payment of £336,000 to cover the past deficit.

London Borough of Bromley Pension Fund ('Bromley')
The Group also participates in the Superannuation Fund operated by the London Borough of Bromley as an 'Admitted Body'. The fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the scheme are determined by a qualified actuary on the basis of valuations using the projected unit method. In 2006 – 2007 the Group contributed at the rate of 13.8% of pensionable salaries plus and additional payment of £150,969 to cover the past service deficit.

The last actuarial valuation of the Bromley pension fund ('the Fund') was updated to 31 March 2004 by a qualified actuary, using a set of assumptions consistent with those required under FRS 17. The next formal valuation is due as at 31 March 2007.

Downland Housing Group Limited Pension & Assurance Scheme ('DHGPA')
This 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. This 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.

23: Pensions (continued)

The scheme has been defined as a multi employer scheme. Accordingly the full liability has been incorporated in the Group accounts but has not been reflected in the operating companies; Downland Housing Association Limited and Grange Management (Southern) Limited.

The last full actuarial valuation was at 31 March 2006 using the projected unit method and was updated for FRS 17 purposes to 31 March 2007. The major assumptions used in the valuation were:

	2007	2006	2005
Inflation	**3.2%**	3.0%	3.0%
Pension increases in payment	**3.2%**	3.0%	3.0%
Discount rate	**5.4%**	4.9%	5.3%
Expected return on Equities	**7.8%**	7.5%	8.0%
Expected return on Bonds	**5.3%**	4.9%	4.7%
Expected return on other assets	**6.8%**	7.0%	5.3%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, might not necessarily be borne out in practice. In 2006 / 2007 there was no employer contribution. The scheme was closed for future service accrual in March 2005. There is an annual payment of £362,000 to fund the scheme deficit.

Social Housing Pension Scheme ('SHPS')

The Group participates in the Social Housing Pension Scheme ('SHPS'). SHPS is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state 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 accrual rate
3.2 Final salary with a 1/70th accrual rate
3.3 Career average revalued earnings ('Care') with a 1/60th accrual rate

An employer can elect to operate the 1/60th accrual rate 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 payments using a discount rate calculated by reference to the expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Group paid contributions at rates from 9.4% to 12.4%. Member contributions varied between 3.1% and 6.1% depending on age. As at the balance sheet date there were 528 active members of the scheme employed by the Group. The Group 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 plan, the accounting charge for the period under FRS 17 represents the future contribution payable.

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 valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding 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 2006. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £1,515 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £235 million, equivalent to a past service funding level of 87%. 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.

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

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 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 1/60th accrual rate	**17.6**
Final Salary with 1/70th accrual rate	**15.3**
Career average revalued earnings with a 1/60th 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 from 2007/2008 will be 9.7% to 14.1% 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. 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 Association, 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 after 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 three 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.

23: Pensions (continued)

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.

The William Sutton Trust Final Salary Scheme ('WS Scheme')
The scheme is a defined benefit (final salary) funded pension scheme.

The most recent full actuarial valuation was carried out as at 30 September 2006. The employer contribution made in respect of the accounting period amounted to £1,312,444 (2006: £1,448,105). The current agreement as regards contribution rates for future years is described in the Schedule of Contributions dated 1 November 2004.

The scheme is closed to new entrants. The current service cost under the projected unit method is therefore expected to increase as the membership ages.

The Hertfordshire County Council Pension Fund ('Herts Council Fund')
Staff who transferred from Hertsmere Borough Council to the Ridgehill group of companies are members of this scheme, which reflects the terms of the Local Government Pension Scheme ('LGPS'). There are 24 contributing members.

The latest actuarial valuation of the Herts Council Fund was carried out as at 31 March 2004 by an independent actuary. The next formal valuation is due as at 31 March 2007. The valuation was under the projected unit credit method.

The contribution paid in 2006/07 by the Group was 18.6% (2006: 18.6%). The deficit at 31 March 2001 was £553,000, which was paid in full, in advance, in December 2002.

The Devon County Council Pension Scheme
The scheme is a defined benefit funded scheme, administered by Devon County Council, available to all staff that transferred to Tor Homes from South Hams District Council under TUPE in March 1999. The latest actuarial valuation took place as at 31 March 2004.

During the financial year Tor Homes paid contributions at two rates for relevant employees: 14.05% and 16.86%. The pension costs for the year were £155,613 (2006: £135,922) covering 37 employees (2006: 42).

Tor Homes left the Affinity Sutton Group on 30 March 2007.

Friends Provident
This scheme is administered by Friends Provident and is a defined contribution scheme. The employer contribution rate payable by the Group 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%

In accordance with Financial Reporting Standard 17 ('FRS 17') the directors of the Group have appointed the scheme actuaries to prepare the following detailed disclosures and they have relied on the actuaries expertise in this regard. 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, may not necessarily be borne out in practice.

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

23: Pensions (continued)

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	Devon CC £'000	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
As at 31 March 2007							
The fair value of the assets:							
Equities	-	6,907	7,270	3,817	51,800	9,151	78,945
Bonds	-	2,480	2,363	563	10,300	1,371	17,077
Other	-	1,704	1,528	2,633	300	1,472	7,637
	-	11,091	11,161	7,013	62,400	11,994	103,659
Present value of fund liabilities	-	(14,329)	(15,886)	(9,021)	(62,900)	(15,338)	(117,474)
Fund deficit	**-**	**(3,238)**	**(4,725)**	**(2,008)**	**(500)**	**(3,344)**	**(13,815)**

	Devon CC £'000	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
As at 31 March 2006							
The fair value of the assets:							
Equities	3,360	6,523	8,700	4,533	48,000	8,393	80,309
Bonds	770	1,971	1,912	729	10,300	1,421	17,103
Other	760	1,856	363	1,331	600	1,205	6,115
	4,890	10,350	10,975	6,593	59,700	11,019	103,527
Present value of fund liabilities	(6,757)	(14,157)	(15,284)	(9,662)	(61,400)	(15,639)	(122,899)
Fund deficit	**(1,867)**	**(3,807)**	**(4,309)**	**(3,069)**	**(1,700)**	**(4,620)**	**(19,372)**

	Devon CC £'000	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
As at 31 March 2005							
The fair value of the assets:							
Equities	2,515	6,379	6,296	3,072	34,300	6,806	59,368
Bonds	616	874	1,680	559	13,300	1,386	18,415
Other	659	847	504	2,158	700	1,154	6,022
	3,790	8,100	8,480	5,789	48,300	9,346	83,805
Present value of fund liabilities	(5,740)	(12,160)	(13,263)	(8,854)	(50,800)	(14,096)	(104,913)
Fund deficit	**(1,950)**	**(4,060)**	**(4,783)**	**(3,065)**	**(2,500)**	**(4,750)**	**(21,108)**

23: Pensions (continued)

As at 31 March 2007:	Devon CC	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.2%	3.2%	3.3%	3.2%	2.8%	3.2%
Salary increases	4.7%	4.7%	5.1%	N/A	4.3%	4.7%
Pension increases in payment	3.2%	3.2%	3.3%	3.2%	2.8%	3.2%
Discount rate	5.3%	5.4%	5.2%	5.4%	5.4%	5.4%
Expected return on equities	7.7%	7.7%	7.1%	7.8%	8.0%	7.8%
Expected return on bonds	5.3%	6.4%	5.2%	5.3%	5.0%	4.9%
Expected return on gilts	4.7%	N/A	4.5%	N/A	5.3%	N/A
Expected return on other annuities	5.6%	N/A	N/A	5.4%	5.3%	N/A
Expected return on property	6.7%	6.8%	N/A	6.8%	8.0%	5.8%
Expected return on cash	5.6%	4.9%	5.0%	5.3%	5.3%	4.9%

As at 31 March 2006:	Devon CC	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.0%	3.1%	3.0%	3.0%	2.5%	3.1%
Salary increases	4.5%	3.1%	4.8%	N/A	4.0%	4.6%
Pension increases in payment	3.0%	4.6%	3.0%	3.0%	2.5%	3.1%
Discount rate	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Expected return on equities	7.3%	7.3%	7.0%	7.5%	8.0%	7.4%
Expected return on bonds	4.9%	6.0%	4.9%	4.9%	4.5%	4.6%
Expected return on gilts	4.3%	N/A	4.2%	N/A	4.5%	N/A
Expected return on other annuities	5.6%	N/A	N/A	7.0%	4.5%	N/A
Expected return on property	6.3%	6.5%	N/A	N/A	8.0%	5.5%
Expected return on cash	5.6%	4.6%	4.0%	N/A	4.5%	4.6%

As at 31 March 2005:	Devon CC	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	2.9%	2.9%	2.8%	3.0%	2.5%	2.9%
Salary increases	4.4%	4.4%	4.6%	N/A	4.0%	4.4%
Pension increases in payment	2.9%	2.9%	2.8%	3.0%	2.5%	2.9%
Discount rate	5.4%	5.4%	5.3%	5.3%	5.4%	5.4%
Expected return on equities	7.7%	7.7%	7.5%	8.0%	8.0%	7.7%
Expected return on bonds	4.7%	4.8%	5.3%	4.7%	4.8%	4.8%
Expected return on gilts	5.7%	N/A	4.5%	N/A	4.0%	N/A
Expected return on other annuities	4.8%	N/A	N/A	5.3%	4.0%	N/A
Expected return on property	6.7%	5.7%	N/A	N/A	4.0%	5.7%
Expected return on cash	4.8%	4.8%	4.3%	N/A	4.0%	4.8%

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

Notes to the Financial Statements
YEAR ENDED 31 MARCH 2007

23: Pensions (continued)

The following represents the amounts charged to the Income and Expenditure Account following the full implementation of FRS 17:

	Devon CC £'000	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Year to 31 March 2007							
Amounts charged to operating activities:							
Current and past service cost	267	327	236	60	1,199	207	2,296
Amounts charged to pension finance costs:							
Expected return on pension fund assets	322	699	705	443	4,300	754	7,223
Interest on pension fund liabilities	(335)	(694)	(745)	(460)	(3,000)	(760)	(5,994)
	(13)	**5**	**(40)**	**(17)**	**1,300**	**(6)**	**1,229**
Actuarial gains and losses on defined benefit pension fund:							
Actual return less expected return on pension fund assets	67	99	(418)	147	0	24	(81)
Experience gains and losses arising on the fund liabilities	(10)	(329)	-	(14)	(800)	-	(1,153)
Changes in financial assumptions underlying the present value of the fund liabilities	(33)	873	-	673	600	820	2,933
	24	**643**	**(418)**	**806**	**(200)**	**844**	**1,699**
Movement in deficit during the year:							
Deficit on the fund at 1 April 2006	(1,867)	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	(19,372)
Current service cost	(267)	(327)	(236)	(60)	(1,199)	(207)	(2,296)
Employer contributions	222	232	278	362	1,300	604	2,998
Other income / outgoings	-	-	-	(30)	-	41	11
Contributions in respect of unfunded benefits	-	16	-	-	-	-	16
Past service costs	-	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-	-
Net return on assets	(13)	5	(40)	(17)	1,300	(6)	1,229
Actuarial (loss) / gain	24	643	(418)	806	(200)	844	1,699
Transfer of Tor Homes liability out of Affinity Sutton Group	1,901	-	-	-	-	-	1,901
Deficit in fund at 31 March 2007	-	**(3,238)**	**(4,725)**	**(2,008)**	**(499)**	**(3,344)**	**(13,814)**
History of experience gains and losses							
Difference between the expected return and actual return on fund assets	322	99	(418)	147	-	24	(81)
Value of assets	-	11,091	11,161	7,013	62,400	11,994	103,659
As a percentage of fund assets:	N/A	0.9%	(3.7%)	2.1%	0.0%	0.2%	(0.1%)
Experience gains on fund liabilities	(10)	(329)	-	(14)	(800)	-	(1,153)
Present value of liabilities	-	14,329	15,886	9,021	62,900	15,338	117,474
As a percentage of fund liabilities	N/A	(2.3%)	0.0%	(0.2%)	(1.3%)	0.0%	(1.0%)
Actuarial (losses) / gains recognised in Statement of Total Recognised Gains and Losses	-	643	(418)	806	(200)	844	1,699
Present value of liabilities	-	14,329	15,886	9,021	62,900	15,338	117,474
As a percentage of fund liabilities	N/A	4.5%	(2.6%)	8.9%	(0.3%)	5.5%	1.4%

23: Pensions (continued)

	Devon CC £'000	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Year to 31 March 2006							
Amounts charged to operating activities:							
Current and past service cost	232	289	243	62	1,200	187	**2,213**
Amounts charged to pension finance costs:							
Expected return on pension fund assets	N/A	585	573	383	3,400	618	**5,559**
Interest on pension fund liabilities	N/A	(657)	(700)	(451)	(2,700)	(724)	**(5,232)**
	(46)	(72)	(127)	(68)	(700)	(106)	**281**
Actuarial gains and losses on defined benefit pension fund							
Actual return less expected return on pension fund assets	674	1,332	1,976	748	8,500	1,620	**14,850**
Experience gains and losses arising on the fund liabilities	0	292	0	(82)	300	139	**649**
Changes in financial assumptions underlying the present value of the fund liabilities	(483)	(1,628)	(1,414)	(903)	(8,900)	(1,593)	**(14,921)**
	191	(4)	562	(237)	(100)	166	**578**
Movement in deficit during the year:							
Deficit on the fund at 1 April 2005	(1,950)	(4,060)	(4,783)	(3,065)	(2,500)	(4,750)	**(21,108)**
Current service cost	(232)	(289)	(243)	(62)	(1,200)	(187)	**(2,213)**
Employer contributions	170	618	282	363	1,400	215	**3,048**
Contributions in respect of unfunded benefits	-	-	-	-	-	42	**42**
Net return on assets	(46)	(72)	(127)	(68)	700	(106)	**281**
Actuarial (loss) / gain	191	(4)	562	(237)	(100)	166	**578**
Deficit in fund at 31 March 2006	(1,867)	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	**(19,372)**
History of experience gains and losses							
Difference between the expected return and actual return on fund assets	674	1,332	1,976	748	8,500	1,620	**14,850**
Value of assets	4,890	10,350	10,975	6,593	59,700	11,019	**103,527**
As a percentage of fund assets	13.8%	12.9%	18.0%	11.3%	14.2%	14.7%	**14.3%**
Experience gains on fund liabilities	-	292	-	(82)	300	139	**649**
Present value of liabilities	6,757	14,157	15,284	9,662	61,400	15,639	**122,899**
As a percentage of fund liabilities	0.0%	2.1%	0.0%	(0.8%)	(0.5%)	0.9%	**(0.5%)**
Actuarial (losses) / gains recognised in Statement of Total Recognised Gains and Losses	191	(4)	562	(237)	(100)	166	**578**
Present value of liabilities	6,757	14,157	15,284	9,662	61,400	15,639	**122,899**
As a percentage of fund liabilities	2.8%	0.0%	3.7%	(2.5%)	(0.2%)	1.1%	**0.5%**

Notes to the Financial Statements

YEAR ENDED 31 MARCH 2007

24: Ultimate Parent Undertaking

At the year end Affinity Sutton Group Limited was the ultimate parent undertaking for the following wholly owned operating companies:

Downland Housing Association Limited	(from 1 April 1996)
Grange Management (Southern) Limited	(from 5 December 1996)
Broomleigh Housing Association Limited	(from 1 April 2003)
William Sutton Housing Association Limited	(from 2 October 2006)
Aashyana Housing Association Limited	(from 2 October 2006)

Each company above is registered in England and Wales under the Industrial and Provident Societies Act 1965.

BHT	(from 1 September 2006) Company limited by guarantee
Affinity Funding Limited	(from 11 October 2005) Company limited by guarantee
Community Building Services (CBS) Limited	(from 2 October 2006)

Each company above is registered in England and Wales.

Affinity Sutton Group Limited is not controlled by any one individual.

25: Legislative Provisions

The Group is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Housing Corporation under the Housing Act 1996.

26: FRS 8 Related Party Transactions

Residents who are members of the Board of any Group company have tenancies which are on normal commercial terms, and as such their position does not afford them any additional benefits over other residents.

27: Minority Interest

The minority interest disclosed in the Group's balance sheet represents the interest of Plymouth City Council, a 49% shareholder in the subsidiary company Call24Hour Limited. Since the departure of Tor Homes from the Group, Call24Hour is no longer a subsidiary of Affinity Sutton Group Limited.

Legal and Administrative Details

Affinity Sutton Group Limited
Registered office

Level 6, 6 More London Place
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Registered under the Industrial
and Provident Societies Act
No. 28038R

Registered by the
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No. LH4087

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Royal Bank of Scotland plc
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Valuers
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Fax: 0117 939 3922
www.aashyana.co.uk

BHT
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Brighton
East Sussex, BN1 4PH
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Fax: 01273 645 402
www.bht.org.uk

Broomleigh Housing Association
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157-159 Masons Hill
Bromley
Kent, BR2 9HY
Tel: 020 8313 3310
Fax: 020 8313 0440
www.broomleigh.org.uk

Community Building Services
(CBS) Limited
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Tel: 020 8235 7000
Fax: 020 8235 7052
www.cbsrepairs.com

Downland Housing Association
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Tel: 0845 688 7717
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www.downland.org.uk

Grange Management (Southern)
Limited
6 Godalming Business Centre
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Godalming, GU7 1XW
Tel: 0845 330 3444
Fax: 01483 411 777
www.grangemanagement.com

William Sutton Homes
12 Elstree Way
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Herts, WD6 1JE
Tel: 020 8235 7000
Fax: 020 8235 7290
www.williamsutton.org.uk

Affinity Sutton Group
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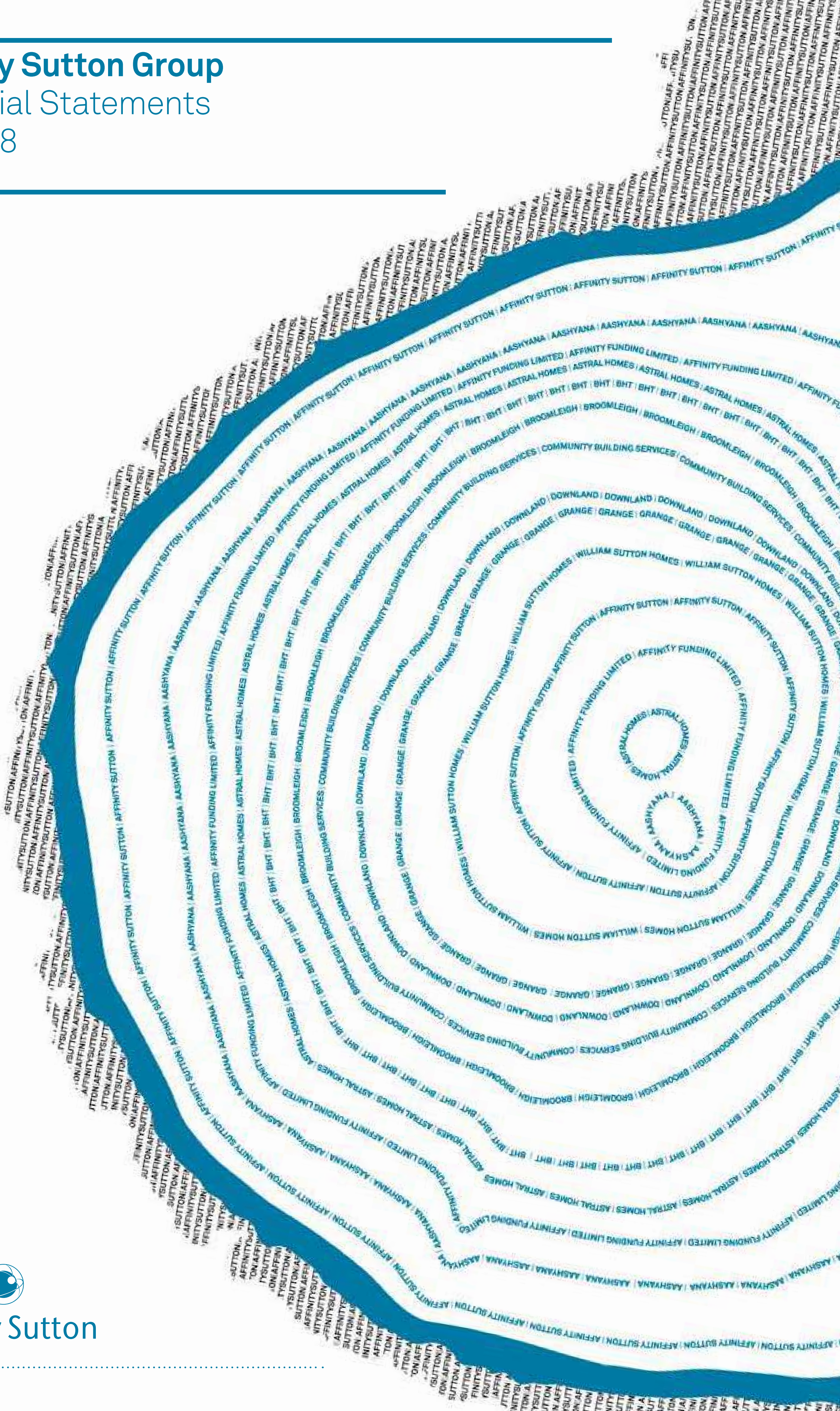
2007/08



Affinity Sutton

BOARD, EXECUTIVES AND ADVISERS

Board
Alan Kilburn OBE (Chairman)
David Shrimpton (Vice Chairman)
Joyce Batten
Desmond Begley
Pat Berry
Robert Dean
John Farrant
Michael Herring
Niku Mawby
Simon Randall CBE
Peter Reynolds
David Viney
Keith Exford (Group Chief Executive)
Kerry Kyriacou (Group Development and New Business Director)
Mark Washer (Group Finance Director)
Kerry Pollard (Removed 25 April 2007)

Group Executive Directors
Keith Exford
Rod Ainsworth (Company Secretary)
Jonathan Cawthra
Nick Dudman
Mark Hewson
Kerry Kyriacou
Tom Martin
Neil McCall
Mark Perry
Mark Washer
Paul Eastwood (Resigned 6 July 2007)

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Winckworth Sherwood
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Hertfordshire
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Lloyds TSB plc
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NatWest Bank plc
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Bromley
Kent
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Auditors
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West Sussex
RH11 9PT

REPORT OF THE BOARD

The Affinity Sutton Group Board presents its report and audited consolidated financial statements for the year ended 31 March 2008.

Operating and Financial Review

Overview

Affinity Sutton Group ("the Group") is one of the leading providers of affordable housing in the country, with nearly 53,000 homes in ownership and management across England. It is regulated by The Housing Corporation.

It undertakes most activity through three main operating companies: Broomleigh Housing Association ("Broomleigh"), Downland Housing Association ("Downland") and William Sutton Homes ("William Sutton"). Each of these is a charitable Registered Social Landlord operating along regional lines, with Broomleigh focussed on South London and the Thames Gateway, Downland operating in the South East of England and William Sutton covering Hertfordshire, North London, the North, Midlands and South West.

In addition, a number of other Group companies undertake a range of activities, including commercial property development, property management and residential property maintenance.

The Group's main activity is the provision of affordable homes for people unable to access the property market. As well as rented accommodation, this includes various forms of low cost home ownership enabling purchasers to buy a share in a property through part-buy/part-rent schemes, and market rent accommodation. Profits from a programme of new build residential property sales on the open market are used to subsidise the development of affordable homes for rent.

Increasing amounts of money are being invested in a broad range of community initiatives targeting three key themes: tackling "worklessness", financial inclusion and healthy living. Examples include one new programme which has been set up to help residents in temporary accommodation into work and another which works with a local Credit Union to promote access to affordable credit. As well as direct funding from reserves, the Group has been successful leveraging in funding from other bodies, such as Sport England and the European Social Fund.

The following table shows each of the Group's main companies and their immediate subsidiaries:

Affinity Sutton Group Ltd ††
Group parent. Provides strategic direction and ultimate control to its subsidiaries.
Provides corporate services to the Group

William Sutton Housing Association Ltd (trading as William Sutton Homes) † Operating nationally.	**Broomleigh Housing Association Ltd †** Operating in SE London and Thames Gateway.	**Downland Housing Association Ltd †** Operating in the South East.	**Grange Management (Southern) Ltd** Industrial and Provident Society undertaking property management.	**Affinity Sutton Funding Ltd** Special purpose company limited by guarantee; Group borrowing vehicle.
William Sutton Developments Ltd Property development company limited by shares.	**Broomleigh Regeneration Ltd** Property development company limited by shares.	**Downland Regeneration Ltd** Property development company limited by shares.		
Aashyana Housing Association Ltd † Small BME RSL operating in Bristol.		**BHT †** Undertaking special needs, homelessness, housing and legal advice.		
Community Building Services (CBS) Ltd Residential property maintenance company limited by shares.				

†Charitable RSL ††Non charitable RSL

REPORT OF THE BOARD (CONTINUED)

The Year Under Review

A year of consolidation

The year under review was a period of consolidation for the Group following 2006/07, which had seen considerable changes resulting from the merger of Affinity Homes Group and William Sutton Group. There were no mergers or acquisitions during the year. Instead, the focus was on taking important steps to rationalise the Group and its subsidiaries.

During the year work continued to bring together departments from across the former William Sutton and Affinity Homes Groups, including IT and financial accounting systems. Departments which had significant staff turnover as a result of recent mergers and relocation completed major recruitment exercises to enable them to focus on delivering excellent customer services.

On 31 March 2007 William Sutton Housing Association merged with Ridgehill to form William Sutton Homes. William Sutton's focus in the year was on restructuring in order to bring together the two companies into an effective and responsive customer-focussed RSL.

The merger of Affinity Homes Group and William Sutton Group led to considerable changes in strategy and policy. Differences over the strategic direction of the Group with one of its operating companies led to the removal of the Chairman and one other non executive director of William Sutton Homes in April and July 2007. The Group commissioned a solicitor to undertake a review of the circumstances surrounding these events and the way in which the Group responded. That report concluded that the decision to remove the Chairman was proper and reasonable in the circumstances. Applications by the former Chairman and the former director to the Employment Tribunal were withdrawn. The Housing Corporation was given a copy of the report and was satisfied that the Group had acted appropriately in all the circumstances.

The Group has commenced reviews of its corporate structures and governance arrangements which were underway at the year end and a decision is expected on the future structure of the Group later in 2008.

Property Development

The year was extremely exciting for the Group in progressing its major development plans in all parts of the Group. Through its subsidiary, Downland, the Group formalised a major new strategic relationship with developer Galliford Try plc and its subsidiary Linden Homes Limited, by setting up a joint venture vehicle to develop a major English Partnerships site in Chichester.

Other such arrangements reached advanced stages with a number of residential property developers. The year also saw the Group complete its first sales of homes on the open market, with a Broomleigh scheme in Rochester. We expect this will be followed by many more over the coming years. William Sutton progressed plans for the regeneration of its Chelsea Estate which will see a landmark scheme in the centre of Chelsea, one of London's prime residential areas, to redevelop and diversify the hundred year old estate.

The "Credit Squeeze" and property slowdown

The Group's activity has been carried out against a backdrop of unprecedented and volatile times in the economy. The Group has taken the current credit crunch and property market downturn very seriously, and conducted a review to assess the potential impact on its activity. A tightening of the credit markets has not only had an impact on the willingness of lenders to continue lending to the sector at competitive interest rate margins, but has also led to a dramatic tightening of the availability of credit to RSLs generally. However, Affinity Sutton remains in a strong position in this regard, in that it has substantial contracted but undrawn facilities that will comfortably fund its development activities in the medium term. Much of the potential impact of higher interest charges arising from disruptions in inter-bank lending and the dislocation between Bank of England Base Rate and LIBOR have also been avoided through active interest rate management, resulting in a substantially fixed interest loan portfolio. Notwithstanding this, the Group is aware that access to the capital markets provides an option to broaden its funding base and this is under review.

There is also firm evidence of a weaker property market and this has the potential to have a negative impact on sales volumes and values in the Group. Whilst the Group's development plans do contemplate increasing levels of shared ownership and outright market sale over the medium term, exposures will remain relatively small compared with the scale of the business. Furthermore, the Board believes that its approach to risk mitigation will protect it from many of the worst impacts of any significant downturn. These include risk sharing with partners in the commercial residential development sector, the development of mechanisms to facilitate purchasers accessing the property market, and improved approaches to valuing and managing its exposure to riskier market activity.

Operating Performance in the Year

The Group has continued to perform well operationally, although there has been some slight worsening in some of the key indicators. The following table demonstrates performance against key indicators:

	2008	2007
Current Arrears as a percentage of rent debit	**4.4%**	3.7%
Percentage of rent lost due to voids	**1.7%**	1.8%
Average days to re-let general needs dwellings	**28.5**	25.8
Percentage of routine repairs responded to within target	**96.5%**	96.4%
Percentage of customers satisfied with overall service	**78.8%**	79.3%

Although the year end figures for rent arrears were up on the previous year, performance since the year end has stabilised and started to return to normal levels. The higher year end figure resulted from the considerable systems and structure changes that took place within William Sutton.

Rent lost from empty properties has remained largely stable. The time taken to relet dwellings has increased by about 2½ days. The increase was in William Sutton and led to the creation of a team dedicated to controlling re-letting of property. Since the year end performance is improving.

Response times on reactive repairs have improved marginally, reflecting improved performance in Downland.

At nearly 80%, customer satisfaction is extremely high against sector comparators.

Financial Performance in the Year

The Group remains committed to balancing strong financial management with investment in existing housing, new homes and communities. A key measure of this is that the Group retains its Aa2 credit rating with a stable outlook from Moody's Investor Service Limited.

Affinity Sutton believes it is vital to balance its financial strength with investment in its housing stock and the development of new homes. Its financial Golden Rules provide a clear business framework for structured and planned growth, managed risk taking and prudent borrowing in the short and medium term. Key elements of this framework are that:

- the interest cover ratio should not fall below 140%;
- annual surpluses should improve year on year;
- operating costs per unit should decrease year on year in real terms;
- no borrowing will be undertaken to invest in existing homes, so that cash generated by operating activity is positive.

Surplus

These financial statements demonstrate continued strong financial performance with a surplus for the year to 31 March 2008 of £25.2 million (2007: £27.1 million).

The following table provides a summary of the Group's results for the last three years:

	2007/08 £m	2006/07 £m	2005/06 £m
Turnover	**203**	199	184
Operating costs	**(140)**	(137)	(135)
Operating surplus	**63**	62	49
Profit on disposal of fixed assets	**4**	5	4
Interest (net finance costs payable)	**(42)**	(40)	(40)
Other	**-**	-	(12)
Surplus for the year	**25**	27	1

REPORT OF THE BOARD (CONTINUED)

Financial performance this year, the first full year after the merger of Affinity and William Sutton, was strong. This is reinforced by the Group's lack of reliance upon asset sales. Whilst the Group believes that an active programme of disposals is entirely appropriate for a large and diverse RSL group, disposals are significantly lower than many operating in the sector, where a number of RSLs are reliant upon profits on disposals to meet financing costs. In addition, the annual surplus is only marginally down on that of the previous year despite unexpectedly high interest rates, which also demonstrates solid performance.

Group Turnover has increased by £4 million, with Operating Costs increasing by £3 million. This relatively low increase in Turnover reflects the departure of Tor Homes on 31 March 2007. Like for like the increase is £15 million or 8.0%.

Social housing Operating Costs have reduced by £0.9 million. This is due to depreciation reducing by £1.0 million and expenditure on maintenance and revenue major repairs decreasing by £1.4 million, partially offset by an increase in management costs of £1.0 million, increase in rent loss of £0.3 million and a £0.2 million increase in development cost. Operating Costs for other social housing activities such as costs associated with Social Services contracts for supported housing, have increased by £3.4 million, which has been offset by a corresponding increase in income. Operating Costs for non social housing activities have increased by £1.9 million partially offset by £0.7 million increase in income. Interest and financing costs have increased by £2 million as a result of higher drawn funding and the dislocation between LIBOR rates and the Bank of England Base Rate.

The Group remains on target to achieve the major efficiency savings from the merger of William Sutton and Ridgehill, and the Group level merger of William Sutton Group and Affinity Homes. By 2010 it expects to benefit from ongoing annual savings of £4.1 million, and has made significant progress towards this target with savings in 2007/08 of £2.5 million.

Balance Sheet

The following table summarises the Group Balance Sheet for the last three years:

	2007/08 £m	2006/07 £m	2005/06 £m
Tangible fixed assets	**2,055**	1,834	1,776
Net current liabilities	**(10)**	(7)	(15)
Total assets less current liabilities	**2,045**	1,827	1,761
Creditors due in over one year	**830**	709	725
Income & expenditure account	**266**	235	205
Revaluation and other reserves	**933**	861	812
Other	**16**	22	19
	2,045	1,827	1,761

Fixed asset growth of £221 million reflects new development and stock investment, plus an overall increase of 2.5% in the underlying property stock valuation (on an existing use value for social housing). This represented one of the biggest years for growth in the history of the Group and brings the total value of housing assets to £2.0 billion (2007: £1.8 billion).

Loans totalling £113 million were drawn from lenders on a bilateral basis to fund development, bringing total loan debt to £815 million.

All new borrowing was used to invest in new stock rather than for investment in existing homes, which was financed by income.

Key financial indicators

Targets for the key indicators the Group monitors reflect continued strong financial performance:

	Actual	Target/Budget
Operating margin percentage	31%	30%
Interest cover	144%	140%
Operating cost per unit	£2,712	£2,812
Adjusted cash generated from operations £million	8.8	7.8
Net surplus percentage	12.4%	12.5%
Gearing	39.9%	41.6%
Debt per unit £000	15.7	16.1

Treasury Management Strategy

Most borrowing is dealt with through Affinity Sutton Funding Limited, the Group's main borrowing vehicle. Policy and strategy is determined by the Group Treasury Committee.

The Group continues to be risk averse in its approach to interest rate management. It is committed to retaining a high level of treasury expertise in house, and uses external experts when necessary. It continued its policy of keeping between 60% and 80% of its drawn funds fixed or otherwise hedged, with flexibility to depart from these parameters if economic or business circumstances make this more appropriate. Where possible the Group seeks to maximise flexibility on interest hedging by entering into free-standing arrangements with hedging counterparties and currently has two stand alone contracts with UK banks to enable this.

The Group maintains a formal counterparty policy in respect of those organisations from which it will borrow, or with which it will enter into other financing arrangements and derivative instruments. Similarly, on investments, the Group regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited.

The Group currently has no exposure to exchange rate risk, although new Rules, which await approval by the Housing Corporation, would allow the Group to borrow in US dollars or euros with scope to hedge those exposures as appropriate.

Governance

The Group Board is comprised of 12 non-executive directors and three executive directors. Their diverse experience, skills and independent perspectives provide an effective review and challenge to the activities of the Group. All directors are remunerated.

The focus of the Group Board is to lead, control and monitor the overall performance of the Group. Specific responsibilities have been delegated to Group Committees which have approved terms of reference. The Group Committees cover:

- Audit
- Finance and Performance
- Remuneration and Nominations
- Treasury

Day to day management is delegated to the Group Executive Team.

During 2007/08 the Group undertook a review of its governance arrangements which included annual appraisals of non-executive directors and a cyclical in-house board member training programme.

The Board is currently considering proposals to simplify the Group's legal structure by combining its three large subsidiaries with the Group parent to create a single legal entity. It is envisaged that the balance and composition of shareholders will be reviewed during this process.

The Remuneration Committee sets the pay of the executive directors at a level to attract and retain the talent required to lead the Group. It takes into account evidence of the pay and conditions of directors undertaking similar roles in the housing association and other relevant sectors based on the independent advice of specialist consultants. The pension schemes available to the executive directors are offered on the same terms as all other staff. All directors are part of a non consolidated bonus scheme based on performance against objectives and business targets. This is designed to reward good performance over a rolling three year period.

REPORT OF THE BOARD (CONTINUED)

Statement of Compliance
The Operating and Financial Review has been prepared in accordance with UK Accounting Standards and applicable legislation (Statement of Recommended Practice "Accounting by Registered Social Landlords Update 2005").

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 Group and the Association, and of the surplus or deficit for the period.

Industrial and Provident Society law requires the Board to prepare financial statements. Company law requires the directors to prepare financial statements for each financial year. Under those laws they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). 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 applicable accounting standards have been followed, subject to any 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 Group and the Association will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable its members to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the information included on the Association'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 Association'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 Association's auditors are aware of that information.

The Group's System of Internal Control

Responsibility
The Board of Affinity Sutton Group Limited is the ultimate governing body for the Group and is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations.

The Board is responsible for ensuring that sound systems of internal control exist across the Group which focus on the significant risks that threaten the Group's ability to meet its objectives, and provide reasonable assurance for the safeguarding of assets. The key means of identifying, evaluating and managing the systems of internal control are:

- corporate governance arrangements;
- written Group-wide financial regulations and delegated authorities, which were subject to review during the year;
- policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness. The Group also operates a quality review framework that encourages continuous improvement which, at Group level, is monitored internally and regulated by an external agency (BSI) under ISO9000: 2000;
- Group-wide management assurance function, incorporating Internal Audit, structured to deliver the Audit Committee's three year risk-based strategic audit plan, quality assurance and value for money. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group and operating companies' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;

- Group-wide Health and Safety function: all major operating companies within the Group secured Royal Society for the Prevention of Accidents (RoSPA) Gold or Silver Awards for their management of Health and Safety;
- management structures providing balance and focus within the Group;
- Group-wide risk management function, which seeks to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its operating companies. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks;
- the Group and its operating companies have annual budgets and long-term business plans. Throughout the year, Boards and managers (either directly or through the Finance and Performance Committee) regularly monitored performance against budgets and other indicators. An important tool in this process has been the Balanced Scorecard which identifies performance against key performance indicators;
- regulatory requirements and service objectives and ensuring that variances are investigated and acted upon;
- an anti-fraud culture which is supported by a policy and procedure for dealing with suspected fraud and whistleblowing The Group participated in the 2006 National Fraud Initiative sponsored by the Audit Commission;
- all housing investment decisions and major commitments were subject to appraisal and approval by the Group Project Approval Committee and, when appropriate, Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- a Group-wide treasury management function reporting three times a year to the Group Treasury Committee. During the year the Group improved its treasury management policies and procedures.

The Group and operating company Chief Executives have reviewed the internal control and assurance arrangements by reference to checks on the above and have reported to their respective Boards on the effectiveness of the control systems. The Group Audit Committee, on behalf of the Group Board, has expressed its satisfaction with these arrangements, but noted concerns over some financial control and reporting arrangements linked to bank reconciliations within William Sutton for which remedial action has been taken. It believes that satisfactory controls are now in place.

Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial accounts.

Going Concern

After reviewing the Group's budget for 2008/09 and those of its operating companies, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Affinity Sutton Group has adequate resources to continue in operational existence for the foreseeable future.

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.

Alan Kilburn, OBE
Group Chairman
14 July 2008

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS

Introduction

We have audited the financial statements of Affinity Sutton Group Limited for the year ended 31 March 2008 which comprise the Group and Association Income and Expenditure Accounts, the Group and Association Balance Sheets, the Group Statement of Total Recognised Surpluses and Deficits, the Group Note of Historic Cost Surpluses and Deficits, the Group Cash flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 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 Association'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 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 Board and auditors

The responsibility of the Association'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 pages 12 - 13.

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, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. 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 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. 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 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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2008 and of the surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

KPMG LLP

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

15 July 2008

GROUP AND ASSOCIATION INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

		Group		Association	
	Notes	**2008**	2007	**2008**	2007
		£'000	£'000	**£'000**	£'000
Turnover	2(a)	**203,103**	199,163	**21,461**	15,636
Operating costs	2(a)	**(140,440)**	(137,338)	**(21,379)**	(15,594)
Operating surplus	2(a)	**62,663**	61,825	**82**	42
Surplus on disposal of properties and other fixed assets	2(a)	**4,342**	5,186	**3**	5
Interest receivable and similar income		**1,217**	860	**61**	47
Interest payable and similar charges	5	**(44,195)**	(41,967)	**(110)**	(94)
Other finance income		**1,188**	1,242	**-**	-
Surplus on ordinary activities before taxation	6	**25,215**	27,146	**36**	-
Tax on surplus on ordinary activities	7	**13**	(68)	**-**	(13)
Minority Interest		-	(24)	-	-
Surplus/(deficit) for the year	18	**25,228**	27,054	**36**	(13)

All operations are continuing.

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

	Notes	Group 2008 £'000	2007 £'000
Surplus for the financial year		**25,228**	27,054
Actuarial gains on pension schemes	24	**3,271**	1,699
Unrealised surplus on revaluation of properties	18	**74,070**	72,059
Total recognised surpluses for the year		**102,569**	100,812

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group 2008 £'000	2007 £'000
Reported Surplus on ordinary activities before taxation		**25,215**	27,146
Realisation of property revaluation surpluses of previous years	18	**267**	2,130
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount.	18	**1,431**	1,905
Historical cost surplus on ordinary activities before taxation		**26,913**	31,181
Tax on surplus on ordinary activities	7	**13**	(68)
Minority interest		**-**	(24)
Historical cost surplus on ordinary activities after taxation		**26,926**	31,089

GROUP AND ASSOCIATION BALANCE SHEETS AS AT 31 MARCH 2008

	Notes	Group 2008 £'000	Group 2007 £'000	Association 2008 £'000	Association 2007 £'000
Tangible fixed assets					
Housing property at valuation	8	**2,004,051**	1,798,579	**-**	-
Non housing fixed assets	9	**37,303**	35,209	**2,463**	1,805
Investments	10	**13,221**	-	**-**	-
Investment in joint venture	11				
— share of gross assets		**52,710**	-	**-**	-
— share of gross liabilities		**(52,710)**	-	**-**	-
Total tangible fixed assets		**2,054,575**	1,833,788	**2,463**	1,805
Current Assets					
Stock		**131**	76	**-**	-
Debtors					
— due within one year	12	**24,706**	23,430	**1,727**	1,562
— amounts falling due after more than one year	12	**4**	3,880	**-**	-
Cash at bank and in hand		**18,722**	25,365	**68**	308
		43,563	52,751	**1,795**	1,870
Creditors: amounts falling due within one year	13	(53,605)	(59,809)	(2,933)	(2,386)
Net current liabilities		**(10,042)**	**(7,058)**	**(1,138)**	**(516)**
Total assets less current liabilities		**2,044,533**	1,826,730	**1,325**	1,289
Creditors: amounts falling due after more than one year	14	**829,742**	708,897	**1,500**	1,500
Provision for liabilities and charges	16	**8,271**	13,815	**-**	-
Capital and reserves					
Share capital	17	**-**	-	**-**	-
Revaluation reserve	18	**933,112**	860,740	**-**	-
Restricted reserve	18	**58**	28	**-**	-
Income and expenditure account	18	**265,592**	235,416	**(175)**	(211)
Negative goodwill	19	**7,758**	7,834	**-**	-
		2,044,533	1,826,730	**1,325**	1,289

The financial statements were approved by the Board and were signed on their behalf:

Chairman

Non Executive Director

Company Secretary

GROUP CASH FLOW STATEMENT
FOR YEAR ENDED 31 MARCH 2008

	Notes	2008		2007	
		£'000	**£'000**	£'000	£'000
Net cash flow from operating activities	23(i)		**74,118**		66,027
Returns on investments and servicing of finance					
Interest received and similar income		**1,217**		860	
Interest paid and similar charges		**(44,195)**		(41,967)	
Net cash outflow from returns on investments and servicing of finance			**(42,978)**		(41,107)
Taxation					
Corporation tax paid		**(12)**		(95)	
Net cash outflow on taxation			**(12)**		(95)
Capital expenditure					
Payments to acquire and develop housing properties		**(195,497)**		(143,649)	
Social housing grant received		**38,361**		56,880	
Payments to acquire other fixed assets		**(4,185)**		(3,746)	
Sale of housing properties		**19,853**		33,497	
Local authority right to buy claw back		**(3,966)**		(286)	
Sale of other fixed assets		**4,385**		-	
Net cash outflow from capital expenditure			**(141,049)**		**(57,304)**
Net cash flow before management of liquid resources and financing			**(109,921)**		(32,479)
Management of liquid resources					
Fixed deposits			**(13,221)**		1,100
			(123,142)		(31,379)
Financing					
Housing loans drawn	23(ii)		**112,985**		47,024
Repayment of finance leases			**(170)**		(180)
(Decrease)/Increase in cash	23(iii)		**(10,327)**		15,465

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

1. Accounting policies

Basis of Accounting
The Group comprised six Registered Social Landlords at the balance sheet date, one unregistered business, which is an Industrial and Provident Society, one company limited by guarantee and one company limited by shares. The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the Statement of Recommended Practice "Accounting by Registered Social Landlords Update 2005" and the Accounting Requirements for Registered Social Landlords General Determination 2006.

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

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

Basis of Consolidation
The consolidated statements incorporate the financial statements of all members of the Group as at 31 March 2008 using merger and acquisition accounting where appropriate.

Turnover
Rental and service charge income from residential and commercial properties is recognised in the Income and Expenditure Account when it falls due. Grants receivable from local authorities in respect of revenue are credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Housing Properties
Completed housing properties are shown on the Balance Sheet at valuation, with subsequent additions at cost. Full revaluations are carried out annually. The aggregate surplus or deficit on the property revaluation is transferred to a revaluation reserve. On the disposal of properties held at valuation, the amount relating to the revaluation is realised by the transfer of the amount to the Income and Expenditure Account from the Revaluation Reserve Account.

The cost of properties is their purchase price, together with incidental costs of acquisition and capitalised repairs and improvements.

Housing Properties in the course of construction are stated at cost of works, plus directly attributable development staff costs and interest capitalised during the construction of the property. The Group has a land banking policy which may involve the purchase of land or sites without planning consent or grant allocation.

Land bank expenditure is stated at cost and classified as 'Housing Properties in the course of construction'.

No attributable development staff costs or interest costs are capitalised on land banking.

Amortisation of Goodwill
Negative goodwill arising on business combinations in respect of acquisitions represents the difference between the consideration given and the fair value of the net assets of the acquired entity. It is included within reserves and released to the Income and Expenditure Account in the periods in which the fair values of the non–monetary assets purchased on the same acquisition are recovered whether through depreciation or sale.

Depreciation and Impairment
Housing properties are depreciated on a straight line basis over their expected useful economic life at an annual rate of 1% on valuation. Freehold land is not depreciated. No depreciation is provided on housing properties in the course of construction.

Depreciation is charged on a straight line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Leasehold office properties	Over period of the lease
Freehold offices	Between 2% and 2.5%
Office furniture and equipment	Between 5% and 25%
Computer equipment and software	25%
Motor vehicles owned	Between 25% and 33%
Leased motor vehicles	Over period of the lease

Investment properties
The Group 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;
- guaranteeing future management income.

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

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

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 SSAP 19 in order to give a true and fair view.

Social Housing Grant

Where developments have been financed wholly or partly by Social Housing Grant ("SHG"), the cost of those developments has been reduced by the amount of the grant receivable.

Although Social Housing Grant (SHG) is treated as a grant for accounting purposes, it may nevertheless become repayable if the conditions under which the grant was made are not complied with, such as if the properties to which the grant was designated cease to be used for the provision of affordable rental accommodation.

Recycled Capital Grant Fund

The Group has the option to recycle SHG which would otherwise be repayable, for re–use on new developments. If unused within a three year period, it will be repayable to the Housing Corporation with interest. Any unused recycled capital grant held within the fund, which it is anticipated will not be used within one year, is disclosed in the balance sheet under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

Disposal Proceeds Fund

The Disposal Proceeds Fund arises from the net proceeds of sales funded by Voluntary Purchase Grant and must be used to provide replacement properties. The fund is included within creditors as required by the Accounting Requirements for Registered Social Landlords General Determinations 2006.

Fixed Asset Investments

Fixed asset investments are recognised at the lower of the investment made and the net realisable amount. Investments are assessed by reference to forecasts to ensure their recoverability. Where investments attract interest, the interest receivable in a period is also recognised to the extent that there is a reasonable expectation that it will be recoverable when due.

Leased Assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Income and Expenditure Account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the Income and Expenditure Account on a straight line basis over the life of the lease.

Pre–contract costs

Costs incurred in bidding for and securing contracts for the supply of products and services under the Private Finance Initiative are recognised as expenses as incurred up to the date of the announcement of the preferred bidder. Where the Group is successful in attaining preferred bidder status, those costs that are incurred after attaining preferred bidder status are directly attributable to the contract and are recognised as an asset.

Development Partnerships

The Group acts in partnership with other Registered Social Landlords in developing certain new properties. It is normally responsible for both development of the scheme and its financing. Following completion, the agreed number of units are either sold to the partner at cost or transferred under a long lease. Rechargeable work undertaken in the year is included in turnover. Rechargeable work in progress at the year end is included in current assets.

Major Repairs

Major repairs are capitalised to the extent that they are improvements to the property, which reduce future repair costs, extend its useful economic life or result in an improvement in the revenue streams through increased rental income. Major repairs are charged to the Income and Expenditure Account as incurred in other circumstances.

No provisions are made for future major repairs as future maintenance expenditure is fully provided in the Group's long–term Business Plan.

Taxation
Affinity Sutton Group Limited, the parent, and its operating companies, Grange Management (Southern) Limited, Affinity Sutton Funding Limited, Community Building Services (CBS) Limited, Downland Regeneration Limited, Broomleigh Regeneration Limited and William Sutton Developments Limited, are liable to corporation tax at the prevailing rate of taxation. The remaining operating companies undertake charitable activities and as such are not liable to corporation tax.

Deferred Tax
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. As at 31 March 2008, discounted deferred tax assets/liabilities are not material and hence no provision is made.

Value Added Tax
The Group's Value Added Tax (VAT) affairs are dealt with under a Group registration in the name of Affinity Sutton Group Limited. The Association recovers only a small proportion of input VAT. Expenditure is therefore shown inclusive of VAT with non attributable tax recovered being credited against management expenses.

Pension Costs
The Association participates in nine pension schemes, six are defined benefit schemes administered by the London Pensions Fund Authority Pension Fund, the London Borough of Bromley Pension Fund, Downland Housing Group Pension & Assurance Scheme, the Social Housing Pension Scheme, ("SHPS"), the Hertfordshire County Council Pension Fund and the William Sutton Trust Pension Scheme providing benefits based on final pensionable pay. The others are defined contribution scheme administered by Friends Provident. SHPS is accounted for as a defined contributions schemes. The assets of the schemes are held separately from those of the Group.

Contributions to pension schemes are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice. The cost of providing pensions is charged to the Income and Expenditure Account over the periods during which the Association benefits from the employees' services. Lump sum payments are being made to reduce the deficits in schemes closed to new entrants. 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.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Restricted Reserves
The Restricted Reserves relate to cash reserves from the Social Housing Agency Fund which will fund future housing research initiatives.

Designated Reserve
The designated reserve represents funds donated to William Sutton Housing Association Limited which have been earmarked for specific activities not normally supported by the Association. It is included in the Income and Expenditure Account.

Housing Loans and other Financial Instruments
Loans and other financial instruments are stated in Creditors 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 based on the loan drawdown amounts.

Financial costs relating to the renegotiation of existing facilities are charged to the Income and Expenditure Account as they are incurred.

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

2. Turnover, cost of sales, operating costs and operating surplus/(deficit)

2(a) Particulars of turnover, cost of sales, operating costs and operating surplus/(deficit)

	Turnover £'000	**Cost of sales £'000**	**Operating costs £'000**	**2008 Operating surplus/ (deficit) £'000**	Turnover £'000	2007 Operating surplus/ (deficit) £'000
Social housing activities						
Income and expenditure from social housing lettings	185,706	-	(124,306)	**61,400**	186,649	61,479
Other income and expenditure	3,087	-	(2,762)	**325**	2,467	(340)
Total social housing	**188,793**	**-**	**(127,068)**	**61,725**	189,116	61,139
Other social housing activities						
Supporting people contract income	2,795	-	(2,745)	**50**	1,885	(75)
Other services	3,960	-	(3,964)	**(4)**	1,671	(126)
Total	**6,755**	**-**	**(6,709)**	**46**	3,556	(201)
Total social and other housing activity	**195,548**	**-**	**(133,777)**	**61,771**	192,672	60,938
Non social housing activity						
Income and expenditure from lettings	939	-	(297)	**642**	871	575
Income relating to commercial tenancies	1,840	-	(1,057)	**783**	1,560	651
Other	4,776	-	(5,309)	**(533)**	4,060	(339)
	203,103	**-**	**(140,440)**	**62,663**	199,163	61,825
Net surplus/(deficit) from disposals	14,649	(10,020)	(287)	**4,342**	14,649	5,186
Interest receivable				**1,217**		860
Interest payable				**(44,195)**		(41,967)
Other finance cost/income				**1,188**		1,242
Surplus on ordinary activities before taxation				**25,215**		27,146

The Association's turnover includes corporate recharges to operating companies and income for information management and development services.

2(b) Particulars of income and expenditure from social housing lettings

	General Needs Housing £'000	Supported Housing/ Housing for older people £'000	Shared Ownership Accomo-dation £'000	Leasehold £'000	Key Workers £'000	Total 2008 £'000	Total 2007 £'000
Rent	148,818	17,048	2,367	18	3,403	**171,654**	172,376
Charges for support services	-	3,769	-	-	-	**3,769**	3,921
Service charges	6,874	2,208	209	1,726	-	**11,017**	10,910
Garage rents	1,179	-	-	-	-	**1,179**	1,208
Gross rents receivable	156,871	23,025	2,576	1,744	3,403	**187,619**	188,415
Rent losses from voids	(2,426)	(531)	(20)	-	(106)	**(3,083)**	(3,417)
Net rents receivable	154,445	22,494	2,556	1,744	3,297	**184,536**	184,998
Revenue grants from local authorities	894	109	-	-	-	**1,003**	1,589
Supported housing management grant	-	-	-	-	-	**-**	57
Other income	167	-	-	-	-	**167**	5
Total income from social housing lettings	**155,506**	**22,603**	**2,556**	**1,744**	**3,297**	**185,706**	186,649
Expenditure on social housing letting activities							
Services	(11.374)	(6,395)	(305)	(1,263)	(787)	**(20,124)**	(20,064)
Management	(23,159)	(3,663)	(518)	(898)	(326)	**(28,564)**	(27,573)
Routine maintenance (including cyclical)	(35,503)	(4,561)	(28)	(99)	(746)	**(40,937)**	(41,405)
Rent losses from bad debts	(1,486)	(183)	-	-	(14)	**(1,683)**	(1,365)
Major repairs expenditure	(23,525)	(2,915)	-	-	(365)	**(26,805)**	(27,734)
Development	(2,400)	-	-	-	-	**(2,400)**	(2,194)
Depreciation on housing properties	(2,625)	(186)	(98)	-	-	**(2,909)**	(3,888)
Rent paid	(661)	(223)	-	-	-	**(884)**	(902)
Other costs	-	-	-	-	-	**-**	(45)
Total expenditure on social housing lettings	**(100,733)**	**(18,126)**	**(949)**	**(2,260)**	**(2,238)**	**(124,306)**	(125,170)
Operating surplus/(deficit) on social housing letting activities	**54,773**	**4,477**	**1,607**	**(516)**	**1,059**	**61,400**	61,479

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

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:

	Association	
	2008	2007
	£'000	£'000
Emoluments (including compensation for loss of office and benefits in kind)		
Non executive directors	**127**	73
Executive directors	**885**	671
Pension contributions – in respect of services as directors	**102**	67
	1,114	**811**

The non executive directors were remunerated from October 2006. Consequently the figures for 2007 include only a partial year of remuneration compared with a full year for 2008.

One director received £65,715 in total for loss of office as director in line with the Group's redundancy terms (2007: six directors, £210,000).

	2008	2007
	£	£
Highest paid director	**244,466**	213,828
Pension contributions of the highest paid director	**26,446**	19,596
	£'000	£'000
Expenses reimbursed to directors not chargeable to United Kingdom income tax	49	36

The pay of the highest paid director was increased in October 2006 to reflect increased responsibilities arising from the merger of Affinity Homes Group and William Sutton Group.

The pay shown for 2007/08 is for a full year at the new rate and also includes a non consolidated bonus payment of £28,878.

4. Employee information

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

	Group		Association	
	2008	2007	**2008**	2007
	Number	Number	**Number**	Number
Full time equivalent	**1,419**	1,507	**155**	119
Staff Costs:	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**38,820**	38,964	**7,380**	5,660
Social security costs	**3,363**	3,276	**745**	518
Pension costs (Note 24)	**4,314**	4,514	**998**	710
	46,497	46,754	**9,123**	6,888

5. Interest payable and similar charges

	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	£'000	£'000
Interest on loans and overdrafts	**45,937**	43,637	**106**	90
Interest payable on finance leases	**428**	443	**4**	4
Other charges	**884**	751	**-**	-
	47,249	44,831	**110**	94
Less: interest capitalised	**(3,054)**	(2,864)	**-**	-
	44,195	41,967	**110**	94

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

6. Surplus on ordinary activities before taxation

	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation	**5,545**	6,194	**820**	560
Impairment	**61**	851	**-**	-
Charitable donations	**64**	63	**-**	-
Operating lease rentals	**3,238**	2,618	**354**	354
Amortisation of negative goodwill	**(76)**	(79)	**-**	-
Auditors remuneration:				
— in capacity as auditors	**196**	229	**42**	53
— in respect of other services	**72**	70	**-**	40
Other revenue grants	**(1,003)**	(822)	**-**	-

7. Taxation

Analysis of charge in period	Group		Association	
	2008	2007	**2008**	2007
Uk Corporation tax	**£'000**	£'000	**£'000**	£'000
Current tax (credit)/charge on income for the period	**(13)**	43	**-**	13
Adjustment in respect of prior periods	**-**	25	**-**	-
Total tax (credit)/charge	**(13)**	68	**-**	13

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

Current tax reconciliation	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Surplus on ordinary activities before tax	**25,125**	27,146	**-**	-
Current tax at 30%	**7,565**	8,144	**-**	-
Effects of:				
Charitable surpluses not taxed	**(7,578)**	(7,884)	**-**	13
Gift aid	**-**	(217)	**-**	-
Total current tax charge (see above)	**(13)**	43	**-**	13

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

8. Tangible fixed assets – Housing Property – Group

	Housing Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership Properties £'000	Leasehold improvements £'000	Total £'000
Cost/Valuation					
At 1 April 2007	2,259,293	107,501	59,870	425	2,427,089
Additions	23,018	172,462	-	17	195,497
Proceeds from first tranche shared ownership sales	-	(12)	(12,042)	-	(12,054)
Schemes completed	77,647	(107,374)	29,727	-	-
Transfer to current assets	-	(946)	-	-	(946)
Disposals	(3,608)	-	(704)	-	(4,312)
Impairment	(61)	-	-	-	(61)
Revaluation	59,220	-	8,000	-	67,220
At 31 March 2008	**2,415,509**	**171,631**	**84,851**	**442**	**2,672,433**
Social Housing Grant					
At 1 April 2007	(573,202)	(39,664)	(15,546)	-	(628,412)
Received in year	(28,020)	(10,605)	(1,272)	-	(39,897)
Eliminated on disposals	214	-	(145)	-	69
At 31 March 2008	**(601,008)**	**(50,269)**	**(16,963)**	**-**	**(668,240)**
Depreciation					
At 1 April 2007	-	-	-	(98)	(98)
Charge for year	(2,700)	-	(69)	(79)	(2,848)
Revaluation	2,700	-	69	35	2,804
At 31 March 2008	**-**	**-**	**-**	**(142)**	**(142)**
Net book value					
As at 31 March 2008	**1,814,501**	**121,362**	**67,888**	**300**	**2,004,051**
Net book value as at 31 March 2007	1,686,091	67,837	44,324	327	1,798,579

Net book value of housing property at 31st March 2008 is represented by:	Housing Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership Properties £'000	Leasehold improvements £'000	Total £'000
Gross cost	1,498,064	171,631	65,118	442	1,735,255
Social Housing Grant	(601,008)	(50,269)	(16,963)	-	(668,240)
Depreciation	-	-	-	(142)	(142)
Revaluation surplus	917,445	-	19,733	-	937,178
	1,814,501	**121,362**	**67,888**	**300**	**2,004,051**

Housing Property comprises	**2008 £'000**	2007 £'000
Freeholds	**1,982,433**	1,741,722
Long Leaseholds	**21,618**	56,531
Short Leaseholds	**-**	326
	2,004,051	1,798,579

Development and major works additions and improvements to housing properties during the year include capitalised interest of £3,053,386 (2007: £2,864,166) and capitalised administration costs of £3,255,496 (2007:£2,551,188).

The historic cost of completed properties at the end of the year was £945,500,000 (2007: £871,272,000).

Total expenditure in 2008 on works to existing properties was £49,823,000 (2007: £47,972,000) of which £23,018,000 (2007: £20,238,000) has been capitalised.

A valuation was carried out as at 31 March 2008 by Drivers Jonas, the Group's professional external valuer. The valuation has been prepared in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Model. The valuation method discounts the cashflow from rental income less management and repairs expenditure to their present value using a discount rate. The discount rates applied range from 5.25% to 7.25%, but 5.25% has been applied to the core rental stock. The rental income growth assumption is in line with the Group's rent plan to meet target rents by 2012 under the rent restructuring regime and thereafter assumes growth of +0.5% above inflation per annum.

Drivers Jonas has also reviewed and reported on an appropriate residual land value for the Group's housing stock, which in turn determines the annual housing property depreciation charge. The specific residual land value is estimated at 85% by Drivers Jonas (2007: between 85% to 99%).

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

9. Non housing fixed assets

Group

	Freehold Offices £'000	Leasehold Offices £'000	Office Equipment & Cars £'000	Investment Properties £'000	Total £'000
Cost/Valuation					
As at 1 April 2007	28,327	1,364	25,445	3,361	58,497
Additions	1,692	75	2,387	62	4,216
Disposals	(4,506)	-	(175)	(32)	(4,713)
Revaluation	-	-	-	4,046	4,046
At 31 March 2008	**25,513**	**1,439**	**27,657**	**7,437**	**62,046**
Acquisition Grants	**-**	**(26)**	**(5)**	**-**	**(31)**
Depreciation					
At 1 April 2007	(3,865)	(316)	(19,076)	-	(23,257)
Charge for year	(594)	(112)	(1,991)	-	(2,697)
Eliminated on disposal	1,100	-	142	-	1,242
At 31 March 2008	**(3,359)**	**(428)**	**(20,925)**	**-**	**(24,712)**
Net book value as at 31 March 2008	**22,154**	**985**	**6,727**	**7,437**	**37,303**
Net book value as at 31 March 2007	24,462	1,022	6,364	3,361	35,209

Net Book Values	**2008 £'000**	2007 £'000
Leased motor vehicles	**106**	125
Depreciation charge for the year		
Leased motor vehicles	**59**	61

A commercial valuation on investment properties was carried out as at 31 March 2008 by Drivers Jonas on an open market value basis as defined in the Royal Institution of Chartered Surveyors Appraisal and Valuation Model.

The main assumption of the valuation was a capitalised ground rental income at a yield of 6.0% 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% in accordance with Leasehold Valuation Tribunal decisions.

9. Non housing fixed assets
Association

	Office Equipment & Cars £'000
Cost	
As at 1 April 2007	3,024
Additions	1,486
Disposals	(27)
At 31 March 2008	**4,483**
Depreciation	
At 1 April 2007	(1,219)
Charge for year	(820)
Eliminated on disposal	19
At 31 March 2008	**(2,020)**
Net book value as at 31 March 2008	**2,463**
Net book value as at 31 March 2007	1,805

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

10. Fixed Asset Investments – Group

	2008 £'000	2007 £'000
As at 31 March 2007	**-**	-
Additions	**13,000**	-
Interest receivable	**221**	-
As at 31 March 2008	**13,221**	**-**

Fixed asset investments represent funds advanced by Downland to Linden/Downland LLP ("the LLP"), a joint venture with Linden Homes Limited. Linden Homes is a subsidiary of Galliford Try plc. The LLP was created during the year to undertake the development of an English Partnership site in Chichester, West Sussex. The investment was made by way of a subordinated loan attracting interest at 9%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan. The Group and Downland have considered the recoverability of the capital and interest and are satisfied that, based on current forecasts, it is reasonable to assume that funds will be earned by the LLP and recovered as planned.

11. Investment in Joint Venture - Group

The undertaking in which the Group's interest at year end is more than 20% is as follows:

	Country of Incorporation	Principal Activity	Class and percentage of shares held - Group
Joint venture			
Linden/Downland Graylingwell LLP	United Kingdom	Development	50% Ordinary

Joint venture
The total of the Group's profit before taxation from its interest in the joint venture was £nil (2007: £nil). The amounts included in respect of the joint venture comprise the following:

	Linden/Downland Graylingwell LLP £'000	Affinity Sutton Group's share £'000
Turnover	-	-
Current Assets	105,419	52,710
Liabilities		
— due within one year	(29,538)	(14,769)
— due after one year	(75,881)	(37,941)
Net Assets	-	-

There was no profit or loss in the year as all directly attributable costs of the development project were capitalised in accordance with FRS15 and Group accounting policy.

12. Debtors

	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Rents and service charge	**15,481**	13,144	**-**	-
Provision for bad debt	**(5,966)**	(4,944)	**-**	-
	9,515	8,200	**-**	-
Social Housing Grant receivable	**3,780**	3,354	**-**	-
Amounts receivable from Group undertakings	**-**	-	**536**	839
Other debtors and prepayments	**11,411**	11,876	**1,191**	723
	24,706	**23,430**	**1,727**	**1,562**
Amounts falling due after one year				
Loan to other RSLs	**-**	3,872	**-**	-
Employee Loans	**4**	8	**-**	-
	4	3,880	**-**	-
Total Debtors	**24,710**	27,310	**1,727**	1,562

13. Creditors: amounts falling due within one year

	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Bank Overdraft	**4,327**	644	**1,049**	-
Obligations under finance leases (Note 15)	**230**	199	**-**	-
Trade creditors	**4,692**	6,017	**-**	74
Recycled Capital Grant Fund	**435**	1,975	**-**	-
Disposal Proceeds Fund (Note 15)	**-**	7,047	**-**	-
Amount payable to Group undertakings	**-**	-	**7**	34
Other taxation & social security	**348**	752	**-**	289
Accruals and deferred income	**26,998**	20,992	**1,843**	1,945
Other creditors	**15,700**	21,211	**34**	31
Corporation tax	**5**	30	**-**	13
Net housing loans	**870**	942	**-**	-
	53,605	59,809	**2,933**	2,386

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

14. Creditors: amounts falling due after one year

	Group		Association	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Housing loans	**815,164**	702,012	**-**	-
Loan set up costs	**(3,397)**	(3,317)	**-**	-
Net housing loans	**811,767**	698,695	**-**	-
Obligation under finance leases (Note 15)	**5,603**	5,804	**-**	-
Recycled Capital Grant Fund (Note 15)	**815**	316	**-**	-
Other Creditors	**411**	-	**-**	-
Disposal Proceeds Fund (Note 15)	**11,137**	4,082	**-**	-
Sinking fund	**9**	-	**-**	-
Amounts payable to Group undertakings	**-**	-	**1,500**	1,500
	829,742	708,897	**1,500**	1,500

Housing Loans

	2008	2007
	£'000	£'000
Loans	**815,164**	702,012
Loan set up costs	**(3,397)**	(3,317)
	811,767	**698,695**
Repayable, otherwise than by instalments as follows:		
Between one and two years	**1,029**	1,023
Between two and five years	**7,589**	3,228
In five years or more	**806,546**	697,761
	815,164	**702,012**

Affinity Sutton Group Limited has £1.07 billion loan facilities.
The drawn facilities are hedged as follows:

	2008	2007
	£'000	£'000
Market swaps outside loan agreement	**255,200**	151,400
Total fixed	**247,664**	248,627
Total unhedged	**309,906**	299,651
Total indexed linked	**2,394**	2,334
Total Housing Loans	**815,164**	702,012

15. Creditors: Analysis of movement on funds – Group

Obligations under finance leases	**2008 £'000**	2007 £'000
Due in less than one year	**230**	199
Due between one and two years	**206**	252
Due between two and five years	**581**	579
In five years or more	**4,816**	4,973
At 31 March	**5,833**	6,003

Recycled Capital Grant Fund		
At 1 April 2007	**2,291**	2,413
Grants recycled	**624**	205
Interest Accrued	**110**	103
Utilisation of fund	**(1,775)**	(396)
Eliminated on de-merger of Tor Homes	**-**	(34)
At 31 March 2008	**1,250**	**2,291**

Disposal Proceeds Fund		
At 1 April 2007	**11,129**	11,022
Additions	**1,739**	1,661
Interest accrued	**657**	543
Utilisation of fund	**(2,388)**	(1,644)
Eliminated on de-merger of Tor Homes	**-**	(453)
At 31 March 2008	**11,137**	11,129

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

16. Provision for Liabilities and Charges - Group

	2008 £'000	2007 £'000
Pension Schemes		
Downland Housing Group Pension & Assurance Scheme	**1,158**	2,008
London Pensions Fund Authority Pension Fund	**1,427**	3,238
London Borough of Bromley Pension Fund	**3,063**	4,725
The William Sutton Trust Pension Scheme	**100**	500
The Hertfordshire County Council Pension Fund	**2,523**	3,344
As at 31 March 2008	**8,271**	13,815

Under FRS 17 "Retirement Benefits" the Group has recognised the above pension fund liabilities (see note 24).

17. Share Capital – Group

	2008 Number	2007 Number
Shares of £1 allotted, issued and fully paid		
At beginning of year	**24**	64
Net movement during the year	**(2)**	(40)
At the end of the year	**22**	24

These shares carry no dividend rights and are cancelled on cessation of membership of Affinity Sutton Group Limited. Each member has the right to vote at members' meetings.

18. Reserves

Group

	Revaluation Reserve £'000	Restricted Reserves £'000	Income and Expenditure Account £'000	Total £'000
At 1 April 2007	860,740	28	235,416	1,096,184
Surplus for the year	-	-	25,228	25,228
March 2008	74,070	-	-	74,070
Transfer on disposal of properties	(267)	-	267	-
Transfer to Restricted reserves	-	21	(21)	-
Transfer for depreciation relating to revaluation	(1,431)	-	1,431	-
Actuarial gain on pension scheme liability	-	-	3,271	3,271
Other movements	-	9	-	9
At 31 March 2008	**933,112**	**58**	**265,592**	**1,198,762**

Within the Income and Expenditure Account are designated reserves of £168,000.

Association

	Income and Expenditure Account £'000
At 1 April 2007	(211)
Surplus for the year	36
At 31 March 2008	**(175)**

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

19. Negative Goodwill – Group

The negative goodwill arises on the acquisitions listed below and is amortised over the remaining useful lives of the underlying housing properties of 100 years.

	At 31 March 2007 £'000	Amortised in the year £'000	At 31 March 2008 £'000
BHT	**7,441**	(74)	**7,367**
Merrimac Housing Association	**393**	(2)	**391**
	7,834	(76)	**7,758**

20. Capital Commitments – Group

	2008 £'000	2007 £'000
Capital expenditure contracted for but not provided for in the financial statements	**364,700**	127,216
Capital expenditure authorised by the Board not contracted for	**182,038**	90,813

21. Commitments under operating leases – Group

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

	2008 £'000	2007 £'000
Land and buildings		
Expiry date:		
Within one year	**296**	597
Between one and two years	**155**	215
Between two and five years	**312**	517
After five years	**1,716**	1,104
	2,479	2,433

	2008 £'000	2007 £'000
Plant and Machinery		
Expiry date:		
Within one year	**15**	82
Between one and two years	**7**	7
Between two and five years	**528**	450
After five years	**-**	-
	550	539

22. Accommodation – Group

Number of units	Market rent	Supported	General Needs Housing	Shared Ownership	Leasehold	Keyworker	Student	Total
As at 1 April 2007	**24**	**4,108**	**38,033**	**1,009**	**7,663**	**698**	**55**	**51,590**
Net movement	(1)	82	174	225	(19)	(65)	-	396
As at 31 March 2008	**23**	**4,190**	**38,207**	**1,234**	**7,644**	**633**	**55**	**51,986**

	2008 Units	2007 Units
Owned and managed	**50,137**	49,398
Managed on behalf of others	**1,849**	2,192
Managed by others	**783**	698

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

23. Notes to the cash flow statement

(i) Reconciliation of operating surplus for the year to net cash flow from operating activities

	2008 £'000	2007 £'000
Operating surplus	**62,663**	61,825
Non cash flow items:		
Depreciation	**5,545**	6,395
Amortisation of loan costs	**(60)**	(62)
Impairment of properties	**-**	650
(Decrease)/increase in stock	**(55)**	11
Decrease in work in progress	**-**	6,005
FRS 17 adjustment	**(1,087)**	(717)
Decrease/(increase) in debtors	**3,952**	(6,415)
Increase/(decrease) in creditors	**3,160**	(1,665)
Net cash flow from operating activities	**74,118**	66,027

(ii) Reconciliation of net cash flow to movement in net debt

	2008 £'000	2007 £'000
(Decrease)/increase in cash in period	**(10,327)**	15,465
Housing Loans drawn	**(112,985)**	(47,024)
Acquisition of BHT and Merrimac	**-**	(2,457)
Departure of Tor Homes	**-**	62,582
Amortisation costs	**(15)**	(15)
Cash flow from decrease/(increase) in liquid resources	**13,221**	(1,100)
Change in net debt resulting from cash flows	**(110,106)**	27,451
Repayment of finance lease	**170**	180
Net debt as at 1 April 2007	**(680,919)**	(708,550)
Net debt as at 31 March 2008	**(790,855)**	(680,919)

(iii) Reconciliation of net debt

	Cash at bank and in Hand £'000	Investment £'000	Finance Leases £'000	Housing Loan £'000	Net Debt £'000
Balance at 1 April 2007	**24,721**	**-**	**(6,003)**	**(699,637)**	**(680,919)**
Net Cash Flow	(10,327)	13,221	170	(112,985)	(109,921)
Other non cash changes	-	-	-	(15)	(15)
Balance at 31 March 2008	**14,394**	**13,221**	**(5,833)**	**(812,637)**	**(790,855)**

24. Pensions

During the 2007/2008 financial year the Group participated in nine pension schemes. Six are defined benefit final salary pension schemes: the London Pensions Fund Authority Pensions Fund, the Downland Housing Group Pension & Assurance Scheme, the London Borough of Bromley Pension Fund, the Social Housing Pension Scheme ("SHPS"), the William Sutton Trust Pension Scheme, and the Hertfordshire County Council Pension Fund. All defined benefit schemes were closed to new entrants from 31 August 2002 except for SHPS. The other schemes are defined contribution schemes including a scheme administered by Friends Provident, which was closed to new entrants from 1 April 2005.

The Group Chief Executive is an ordinary member of the Social Housing Pension Scheme and does not have any enhanced or special terms.

The pension charge paid by the Group for the year for these schemes was £4,314,000 (2007: £4,514,000). The cost is assessed in accordance with advice from qualified actuaries.

The details of the schemes are set out below:

London Pensions Fund Authority Pensions Fund ("LPFAPF")
The Group is one of a number of employers participating in the fund. This fund provides members with benefits related to pay and services at rates that are defined under the Local Government Superannuation Regulations. To finance these benefits assets are accumulated in the fund and held separately from the assets of the Group.

The fund is valued every three years and the last actuarial valuation took place as at 31 March 2007.

From 1 April 2008 the contribution rate will be 16.4% of pensionable salaries for future service benefits plus an annual payment of £287,306 to cover the past deficit.

London Borough of Bromley Pension Fund ("Bromley")
The Group also participates in the Superannuation Fund operated by the London Borough of Bromley as an "Admitted Body". The fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the scheme are determined by a qualified actuary on the basis of valuations using the projected unit method. In 2007 – 2008 the Group contributed at the rate of 11.6% of pensionable salaries plus an additional payment of £159,596 to cover the past service deficit.

The last actuarial valuation of the Bromley pension fund ("the Fund") was updated to 31 March 2007 by a qualified actuary, using a set of assumptions consistent with those required under FRS 17. The next formal valuation is due as at 31 March 2010.

Downland Housing Group Pension & Assurance Scheme ("DHGPA")
This 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. This 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 scheme has been defined as a multi-employer scheme. Accordingly the full liability has been incorporated in the group accounts but has not been reflected in the operating companies; Downland Housing Association Limited and Grange Management (Southern) Limited.

The last full actuarial valuation was at 31 March 2006 using the projected unit method and was updated for FRS 17 purposes to 31 March 2008. The major assumptions used in the valuation were:

	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, due to the time scale covered, might not necessarily be borne out in practice. In 2007 – 2008 there was no employer contribution. The scheme was closed for future service accrual in March 2005. There is an annual payment of £362,000 to fund the scheme deficit.

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

Social Housing Pension Scheme ("SHPS")
The Group participates in the Social Housing Pension Scheme ("SHPS"). SHPS is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state 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 accrual rate
3.2 Final salary with a 1/70th accrual 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 Group has elected to operate the 1/60th accrual rate 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 payments using a discount rate calculated by reference to the expected future payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Group paid contributions at rates from 9.7% to 14.1%. Member contributions varied between 2.9% and 8.4% depending on age. As at the balance sheet date there were 595 active members of the scheme employed by the Group. The Group 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 plan, the accounting charge for the period under FRS 17 represents the future contribution payable.

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 valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding 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 valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £1,760 million and indicated a decrease in 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 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 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 valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions.

	Assumed Life Expectancy in years at age 65	
	Males	**Females**
Non – Pensioners	**20.4**	**23.3**
Pensioners	**19.4**	**22.4**

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 1/60th accrual rate	**17.6**
Final Salary with 1/70th accrual rate	**15.3**
Career average revalued earnings with a 1/60th accrual rate	**14.1**

The long term joint contribution rates require from employers and members where contributions are set on an age related basis are:

Benefit Structure
Long Term

	Joint Contribution Rate (% of pensionable salaries)		
	Under 30	**30-40**	**Over 40**
Final salary with 1/60th accrual rate	**16.1**	**17.1**	**18.1**
Final Salary with 1/70th accrual rate	**13.8**	**14.8**	**15.8**
Career average revalued earnings with a 1/60th accrual rate	**12.6**	**13.6**	**14.6**

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 from 2007 – 2008 will be 9.7% to 14.1% 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. 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.

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

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 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.

The William Sutton Trust Pension Scheme ("WS Scheme")

The scheme is a defined benefit (final salary) funded pension scheme.

The most recent full actuarial valuation was carried out as at 30 September 2006. The employer contribution made in respect of the accounting period amounted to £1,151,000 (2007: £1,312,444). The current agreement as regards contribution rates for future years is described in the Schedule of Contributions dated 18 December 2007.

The scheme is closed to new entrants. The current service cost under the projected unit method is therefore expected to increase as the membership ages.

The Hertfordshire County Council Pension Fund (Herts Council Fund")

Staff who transferred from Hertsmere Borough Council to the Ridgehill group of companies are members of this scheme, which reflects the terms of the Local Government Pension Scheme ("LGPS"). There are 24 contributing members.

The latest actuarial valuation of the Herts Council Fund was carried out as at 31 March 2007 by an independent actuary. The next formal valuation is due as at 31 March 2010. The valuation was under the projected unit credit method.

The contribution paid in 2007 /08 by the Group was 18.6% (2007: 18.6%) and a monthly lump sum of £39,667.

Friends Provident

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

Employee contributes	Employer contributes
less than 3%	0%
3% - 4%	6%
5% or more	10%

In accordance with Financial Reporting Standard 17 ("FRS 17") the directors of the Group have appointed the scheme actuaries to prepare the following detailed disclosures and they have relied on the actuaries expertise in this regard. 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, may not necessarily be borne out in practice.

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

As at 31 March 2008	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
The fair value of the assets:						
Equities	6,871	7,091	3,596	46,600	8,519	72,677
Bonds	2,220	2,530	567	10,700	1,527	17,544
Other	2,412	1,989	2,536	300	1,584	8,821
	11,503	**11,610**	**6,699**	**57,600**	**11,630**	**99,042**
Present value of fund liabilities	(12,930)	(14,673)	(7,857)	(57,700)	(14,153)	(107,313)
Fund deficit	(1,427)	(3,063)	(1,158)	(100)	(2,523)	(8,271)

As at 31 March 2007	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
The fair value of the assets:						
Equities	6,907	7,270	3,817	51,800	9,151	78,945
Bonds	2,480	2,363	563	10,300	1,371	17,077
Other	1,704	1,528	2,633	300	1,472	7,637
	11,091	**11,161**	**7,013**	**62,400**	**11,994**	**103,659**
Present value of fund liabilities	(14,329)	(15,886)	(9,021)	(62,900)	(15,338)	(117,474)
Fund deficit	(3,238)	(4,725)	(2,008)	(500)	(3,344)	(13,815)

As at 31 March 2006	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
The fair value of the assets:						
Equities	6,523	8,700	4,533	48,800	8,393	76,949
Bonds	1,971	1,912	729	10,300	1,421	16,333
Other	1,856	363	1,331	600	1,205	5,355
	10,350	**10,975**	**6,593**	**59,700**	**11,019**	**98,637**
Present Value of Scheme Liabilities	(14,157)	(15,284)	(9,662)	(61,400)	(15,639)	(116,142)
Fund deficit	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	(17,505)

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

The financial assumptions used for the purposes of FRS17 are as follows:

As at 31 March 2008	**LPFAPF**	**Bromley**	**DHGPA**	**WS Scheme**	**Herts Council**
Inflation	3.6%	3.6%	3.6%	3.6%	3.6%
Salary increases	5.1%	5.1%	N/A	4.4%	5.1%
Pension increases in payment	3.6%	3.6%	3.6%	3.6%	3.6%
Discount rate	6.9%	6.3%	6.3%	6.9%	6.9%
Expected return on equities	7.5%	7.0%	7.5%	8.0%	7.7%
Expected return on bonds	6.3%	6.3%	6.3%	5.5%	5.7%
Expected return on gilts	N/A	4.4%	N/A	5.5%	N/A
Expected return on other annuities	N/A	N/A	6.3%	5.3%	N/A
Expected return on property	6.7%	6.4%	4.8%	8.0%	5.7%
Expected return on cash	4.8%	5.3%	4.8%	5.3%	4.8%

As at 31 March 2007	**LPFAPF**	**Bromley**	**DHGPA**	**WS Scheme**	**Herts Council**
Inflation	3.2%	3.3%	3.2%	2.8%	3.2%
Salary increases	4.7%	5.1%	N/A	4.3%	4.7%
Pension increases in payment	3.2%	3.3%	3.2%	2.8%	3.2%
Discount rate	5.4%	5.2%	5.4%	5.4%	5.4%
Expected return on equities	7.7%	7.1%	7.8%	8.0%	7.8%
Expected return on bonds	6.4%	5.2%	5.3%	5.0%	4.9%
Expected return on gilts	N/A	4.5%	N/A	5.3%	N/A
Expected return on other annuities	N/A	N/A	5.4%	5.3%	N/A
Expected return on property	6.8%	6.6%	6.8%	8.0%	5.8%
Expected return on cash	4.9%	5.0%	5.3%	5.3%	4.9%

As at 31 March 2006	**LPFAPF**	**Bromley**	**DHGPA**	**WS Scheme**	**Herts Council**
Inflation	3.1%	3.0%	3.0%	2.5%	3.1%
Salary increases	3.1%	4.8%	N/A	4.0%	4.6%
Pension increases in payment	4.6%	3.0%	3.0%	2.5%	3.1%
Discount rate	4.9%	4.9%	4.9%	4.9%	4.9%
Expected return on equities	7.3%	7.0%	7.5%	8.0%	7.4%
Expected return on bonds	6.0%	4.9%	4.9%	4.5%	4.6%
Expected return on gilts	N/A	4.2%	N/A	4.5%	N/A
Expected return on other annuities	N/A	N/A	7.0%	4.5%	N/A
Expected return on property	6.5%	6.5%	N/A	8.0%	5.5%
Expected return on cash	4.6%	4.0%	N/A	4.5%	4.6%

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

The following represents the amounts charged to the income and expenditure account following the full implementation of FRS 17:

	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Year to 31 March 2008						
Amounts charged to operating activities:						
Current and past service cost	278	237	-	1,200	187	**1,902**
Curtailment and settlements	-	-	(39)	-	61	**22**
	278	**237**	**(39)**	**1,200**	**248**	**1,924**
Amounts charged to pension finance costs:						
Expected return on pension fund assets	805	743	452	4,600	868	**7,468**
Interest on pension fund liabilities	(772)	(814)	(473)	(3,400)	(821)	**(6,280)**
	33	**(71)**	**(21)**	**1,200**	**47**	**1,188**
Actuarial gains and losses on defined benefit pension fund:						
Actual return less expected return on pension fund assets	(1,040)	(305)	(744)	(8,000)	(1,404)	**(11,493)**
Experience gains and losses arising on the fund liabilities	859	297	(14)	-	(340)	**802**
Changes in financial assumptions underlying the present value of the fund liabilities	1,668	1,685	1,338	7,200	2,071	**13,962**
	1,487	**1,677**	**580**	**(800)**	**327**	**3,271**
Movement in deficit during the year:						
Deficit on the fund at 1 April 2007	(3,238)	(4,725)	(2,008)	(500)	(3,344)	**(13,815)**
Current service cost	(278)	(235)	(39)	(1,200)	(189)	**(1,941)**
Employer contributions	553	291	362	1,200	653	**3,059**
Other income/outgoings	-	-	(32)	-	-	**(32)**
Contributions in respect of unfunded benefits	16	-	-	-	44	**60**
Past service costs	-	-	-	-	-	**-**
Impact of settlements and curtailments	-	-	-	-	(61)	**(61)**
Net return on assets	33	(71)	(21)	1,200	47	**1,188**
Actuarial (loss)/gain	1,487	1,677	580	(800)	327	**3,271**
Deficit in fund at 31 March 2008	(1,427)	(3,063)	(1,158)	(100)	(2,523)	**(8,271)**

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

History of experience gains and losses	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Difference between the expected return and actual return on fund assets	(1,040)	(305)	(744)	(8,000)	(1,404)	**(11,493)**
Value of assets	11,503	11,610	6,699	57,600	11,630	**99,042**
As a percentage of fund assets:	(9%)	(2.6%)	(11.1%)	(13.9%)	(12.1%)	**(11.6%)**
Experience gains on fund liabilities	859	297	(14)	-	(340)	**802**
Present value of liabilities	12,930	14,673	7,857	57,700	14,152	**107,312**
As a percentage of fund liabilities	6.6%	2.0%	(0.2%)	0.0%	(2.4%)	**0.7%**
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	1,487	1,677	580	(800)	327	**3,271**
Present value of liabilities	12,930	14,673	7,857	57,700	14,152	**107,312**
As a percentage of fund liabilities	11.5%	11.4%	7.4%	(1.5%)	2.3%	**3.0%**

Year to 31 March 2007	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Amounts charged to operating activities:						
Current and past service cost	327	236	60	1,200	207	**2,030**
Amounts charged to pension finance costs						
Expected return on pension fund assets	699	705	443	4,300	754	**6,901**
Interest on pension fund liabilities	(694)	(745)	(460)	(3,000)	(760)	**(5,659)**
	5	(40)	(17)	1,300	(6)	**1,242**
Actuarial gains and losses on defined benefit pension fund						
Actual return less expected return on pension fund assets	99	(418)	147	-	24	**(148)**
Experience gains and losses arising on the fund liabilities	(329)	-	(14)	(800)	-	**(1,143)**
Changes in financial assumptions underlying the present value of the fund liabilities	873	-	673	600	820	**2,966**
	643	(418)	806	(200)	844	**1,675**

Movement in deficit during the year	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Deficit on the fund at 1 April 2006	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	**(17,505)**
Current service cost	(327)	(236)	(60)	(1,200)	(207)	**(2,030)**
Employer contributions	232	278	332	1,300	604	**2,746**
Contributions in respect of unfunded benefits	16	-	-	-	41	**57**
Net return on assets	5	(40)	(17)	1,300	(6)	**1,242**
Actuarial (loss)/gain	643	(418)	806	(200)	844	**1,675**
Deficit in fund at 31 March 2007	**(3,238)**	**(4,725)**	**(2,008)**	**(500)**	**(3,344)**	**(13,815)**

History of experience gains and losses	£'000	£'000	£'000	£'000	£'000	£'000
Difference between the expected return and actual return on fund assets	99	(418)	147	-	24	**(148)**
Value of assets	11,091	11,161	7,013	62,400	11,994	**103,659**
As a percentage of fund assets	0.9%	(3.7%)	2.1%	0.0%	0.2%	**(0.11%)**
Experience gains on fund liabilities	(329)	-	(14)	(800)	-	**(1,143)**
Present value of liabilities	14,329	15,886	9,021	62,900	15,338	**117,474**
As a percentage of fund assets	(2.3%)	0.0%	(0.2%)	(1.3%)	0.0%	**(1.0%)**
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	643	(418)	806	(200)	844	**1,675**
Present value of liabilities	14,329	15,886	9,021	62,900	15,338	**117,474**
As a percentage of fund liabilities	4.5%	(2.6%)	8.9%	(0.3%)	5.5%	**1.4%**

Year to 31 March 2006

History of experience gains and losses	£'000	£'000	£'000	£'000	£'000	£'000
Difference between the expected return and actual return on fund assets	1,332	1,976	748	8,500	1,620	**14,176**
Value of assets	10,350	10,975	6,593	58,900	11,019	**97,837**
As a percentage of fund assets	12.9%	18.0%	11.3%	14.2%	14.7%	**14.5%**
Experience gains on fund liabilities	292	-	(82)	300	139	**649**
Present value of liabilities	14,157	15,284	9,662	61,400	15,639	**116,142**
As a percentage of fund liabilities	2.1%	0.0%	(0.8%)	0.6%	0.99%	**0.6%**
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	(4)	562	(237)	(100)	166	**387**
Present value of liabilities	14,157	15,284	9,662	61,400	15,639	**116,142**
As a percentage of fund liabilities	0.0%	3.7%	(2.5%)	(0.2%)	1.1%	**0.3%**

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

Year to 31 March 2005

History of experience gains and losses	**LPFAPF £'000**	**Bromley £'000**	**DHGPA £'000**	**WS Scheme £'000**	**Herts Council £'000**	**Total £'000**
Difference between the expected return and actual return on fund assets	221	257	277	1,800	277	**2,832**
Value of assets	8,100	8,480	5,789	48,300	9,346	**80,015**
As a percentage of fund assets	2.7%	3.0%	4.8%	3.7%	3.0%	**3.5%**
Experience gains on fund liabilities	817	2,859	191	100	(340)	**3,627**
Present value of liabilities	12,160	13,263	8,854	50,800	14,096	**99,173**
As a percentage of fund liabilities	6.7%	21.6%	2.2%	0.2%	(2.4%)	**3.7%**
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	829	(54)	(28)	1,100	(283)	**1,564**
Present value of liabilities	12,160	13,263	8,854	50,800	14,096	**99,173**
As a percentage of fund liabilities	6.8%	(0.4%)	(0.3%)	2.2%	(2.0%)	**1.6%**

Year to 31 March 2004

History of experience gains and losses	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Difference between the expected return and actual return on fund assets	773	1,043	599	7,700	1,188	**11,303**
Value of assets	6,049	7,730	4,560	44,400	8,864	**71,603**
As a percentage of fund assets	12.8%	13.5%	13.1%	17.3%	13.4%	**15.8%**
Experience gains on fund liabilities	38	-	(11)	200	(20)	**207**
Present value of liabilities	11,172	12,531	7,299	48,200	13,338	**92,540**
As a percentage of fund liabilities	0.3%	0.0%	(0.2%)	0.4%	(0.1%)	**0.2%**
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	221	565	38	7,300	457	**8,581**
Present value of liabilities	11,172	12,531	7,299	48,200	13,338	**92,540**
As a percentage of fund liabilities	2.0%	4.5%	0.5%	15.1%	3.4%	**9.3%**

25. Ultimate Parent Undertaking

At the year end Affinity Sutton Group Limited was the ultimate parent undertaking for the following wholly owned operating companies:

Organisations registered in England and Wales under the Industrial & Provident Societies Act 1965:
- Downland Housing Association Limited
- Grange Management (Southern) Limited
- Broomleigh Housing Association Limited
- William Sutton Housing Association Limited
- Aashyana Housing Association Limited

Limited companies registered in England and Wales:
- Brighton Housing Trust
- Affinity Funding Limited
- Community Building Services (CBS) Limited
- William Sutton Developments Limited
- Downland Regeneration Limited (from 18 December 2007)
- Broomleigh Regeneration Limited (from 5 February 2008)

Affinity Sutton Group Limited is not controlled by any one individual.

26. Legislative Provisions

The Group is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Housing Corporation under the Housing Act 1996.

27. Minority Interest

The minority interest disclosed in the Group's balance sheet represents the interest of Plymouth City Council, a 49% shareholder in the subsidiary company Call24hour Limited. Since the departure of Tor Homes from the Group Call24hour is no longer a subsidiary of Affinity Sutton Group Limited.

CONTACT

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E: firstname.surname@affinitysutton.com
W: www.affinitysutton.com

Design: wiredesign.com

VALUATION REPORT

The Bonds are secured by, *inter alia*, an allocation of charged properties from a shared security pool. On an ongoing basis, the Security Agent apportions such number of parts of the Charged Properties between all the Beneficiaries (including the Issuer) as is appropriate. The following valuation report (the **Valuation Report**) therefore relates to the total shared security pool, an appropriate part of which is allocated to secure the Bonds.

VALUATION REPORT

Affinity Sutton

Prudential Trustee Company Limited

29,777 Properties, 12 September 2008

DRIVERS JONAS

www.driversjonas.com

DRIVERS JONAS

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Our ref RXP/SM/63594

Affinity Sutton Funding Limited [The Group Borrower]
Level 6
6 More London Place
Tooley Street
London
SE1 2DA

FAO: Gareth Francis

12 September 2008

Affinity Sutton Capital Markets plc [The Issuer]
Level 6
6 More London Place
Tooley Street
London
SE1 2DA

FAO: Gareth Francis

Royal Bank of Canada [The Underwriter]
One A Queenhithe
Thames Court
London
EC4V 4DE

FAO: Phil Jenkins

Prudential Trustee Company Limited [Security Agent]
Laurence Pountney Hill
London
EC4R 0HH

FAO: Nigel Letheren

Prudential Trustee Company Limited [The Bond Trustee]
Laurence Pountney Hill
London
EC4R 0HH

FAO: Nigel Letheren

Dear Sirs,

Affinity Sutton Capital Markets plc - £250m, 5.981 per cent Secured Bonds due 2038 (the Bonds") Valuation Report

We refer to: a) the Trust Deed to be dated on or around the date of this Valuation Report made between the Trustee and the Issuer (each as defined thereunder) (the "**Trust Deed**") which constitutes and secures the Bonds; b) the loan agreement to be dated on or around the date of this Valuation Report between the Security Agent, the Group Borrower and the Issuer; and c) the Security Trust Deed dated 20 December 2005, as amended, between inter alios, the Group Borrower and The Security Agent.

Unless the context otherwise requires, words and expressions defined in the Trust Deed bear the same meaning where used in this Certificate.

The Affinity Sutton Group (the "**Group**") consists of Affinity Sutton Group Limited, its direct subsidiaries (currently being Affinity Sutton Funding Limited, Broomleigh Housing Association Limited, Downland Housing Association Limited, William Sutton Housing Association Limited, Grange Management (Southern) Limited and the Issuer (in respect of one nominee share)) and its indirect subsidiaries.

We understand that the Group has charged a number of properties to a security pool (the **"Charged Properties"**) which currently supports a number of Bank loan facilities, and that henceforth this pool of charged security will also support the Bonds.

Status of Valuer

In accordance with the instructions of the Group, we have, acting as independent valuers, carried out a valuation as at 12 September 2008 (using the rental stream for 2008/09) of the interest held by the Group in each of the Charged Properties.

Compliance with Valuation Standards

Our valuations have been made in accordance with Royal Institution of Chartered Surveyors (RICS) Valuation Standards, 6^{th} Edition (the "Red Book"), providing guidance as to the valuation bases to be adopted for social housing properties.

Appendices

The main body of our report follows in three parts:

- Appendix I – Valuations and Assumptions;
- Appendix II – Valuation Breakdown Summary; and
- Appendix III – Summary of EUV-SH Valuation Assumptions.

Reliance and Restrictions on Use

This Valuation Report is issued for the benefit and use of the addressees and for inclusion in the Offering Circular for the Bonds and may be used only in connection with the transaction referred to in this Valuation Report and for the purposes of the Offering Circular.

We hereby give consent to the publication of this Valuation Report within the Offering Circular.

We accept responsibility for the information contained in this Valuation Report.

To the best of our knowledge (having taken all reasonable care to ensure that such is the case) the information given in this Valuation Report is in accordance with the facts and does not omit anything likely to have a material, adverse effect on our valuations.

Before this valuation report, or any part of it, is reproduced or referred to in any document, circular or statement (other than the Offering Circular for the Bonds), and before its contents or any part thereof are disclosed, orally or otherwise, to a third party, our prior written approval must be obtained as to the form and context of such disclosure or publication. For the avoidance of doubt, such approval is required whether or not Drivers Jonas LLP is referred to by name and whether or not the contents of this Valuation Report are combined with others.

Yours faithfully

Richard Petty
for DRIVERS JONAS LLP

richardpetty@driversjonas.com
Tel: 020 7896 8262 Fax: 020 7896 8001

APPENDIX I

Valuation Methodology

Contents

1. Introduction

1.1 The Affinity Sutton Group (the "Group") consists of Affinity Sutton Group Limited, its direct subsidiaries (currently being Affinity Sutton Funding Limited, Broomleigh Housing Association Limited, Downland Housing Association Limited, William Sutton Housing Association Limited, Grange Management (Southern) Limited, Affinity Sutton Capital Markets plc (in respect of one nominee share), and its indirect subsidiaries. It holds over 50,000 homes nationwide, and provides a full spectrum of social housing accommodation from rented, support, keyworker and shared ownership.

1.2 We understand that: a) the Group has charged a number of properties to a security pool (which currently supports a number of bank loan facilities), and that henceforth this pool of charged security will also support a formal bond issue facility; and b) Prudential Trustee Company Limited will act as the Bond Trustee for this facility on behalf of the Bondholders (the "Funder").

1.3 The properties forming the security pool are formed from its three main subsidiary companies, being William Sutton Housing Association Limited ("WSHA"), Broomleigh Housing Association Limited ("BHA"), and Downland Housing Association Limited ("DHA"), and will comprise of those charged prior to and within August 2008 (the "Charged Properties").

1.4 Drivers Jonas have been instructed to provide a formal valuation of the Charged Properties.

1.5 As agreed, our valuation relates to 29,777 properties, as follows:

Owner	Units	As %
WSHA	11,260	38%
BHA	10,394	35%
DHA	8,123	27%
Total	**29,777**	**100%**

1.6 In completing this exercise, we have: a) given regard to formal instructions from The Royal Bank of Canada Europe Limited (the "Bond Arranger") on behalf of the Funder, together with mutually agreed Terms of Engagement with the Group; b) agreed a set of unit numbers and property schedule data as summarised above; c) discussed details as to our approach and methodology; and d) completed our own research and analysis.

1.7 The effective date of valuation for each of the Charged Properties is 12 September 2008 using rental streams, unit numbers, and valuation assumptions as at that date.

1.8 We confirm that we have acted as independent valuers and that no conflict of interest has occurred as a result of our production of our valuations.

2. Valuations

Aggregate Valuation Figures

2.1 We have prepared valuations on the following bases:

- **Existing Use Value for Social Housing (EUV-SH); and**
- **Market Value subject to existing tenancies (MV-T).**

2.2 Please note that for most properties (about 80%), the basis of valuation adopted is EUV-SH, as a result of instructions from the Group. In a few cases, the basis of valuation has had to be restricted to EUV-SH, either as a result of legal considerations (such as restrictive covenants) or our judgement as to the nature of the property. A minority of properties (the remaining 20%) have instead been valued on the basis of MV-T, but only where this is both possible and appropriate.

2.3 We have attached as Appendix II a full breakdown of our valuations by owner, estate/region and category.

2.4 We present below our opinions of aggregate valuations together with a brief valuation summary:

Existing Use Value for Social Housing (EUV-SH) of 23,894 properties

£1,074,904,000

(one billion, seventy four million, nine hundred and four thousand pounds)

Market Value subject to existing tenancies (MV-T) of 5,883 properties

£340,393,000

(three hundred and forty million, three hundred and ninety three thousand pounds)

2.5 The above provides an aggregate valuation from the two respective bases of **£1,415,297,000 (one billion, four hundred and fifteen million, two hundred and ninety seven thousand pounds).** We would reiterate that our MV-T valuation relates to the 5,883 properties which can be valued on such a basis, and specifically, this excludes all properties where the MV-T basis of value is not appropriate.

2.6 On an aggregate EUV-SH basis, our opinion of valuation of the full 29,777-unit portfolio, is **£1,242,529,000 (one billion, two hundred and forty two million, five hundred and twenty nine thousand pounds).**

Owner	Units	Total Rent pa	Net EUV-SH	Net MV-T	Total EUV-SH / MV-T
WSHA	11,260	£38,161,750	£179,000,000	£340,393,000	£519,393,000
BHA	10,394	£45,906,872	£438,290,000	£0	£438,290,000
DHA	8,123	£35,758,284	£457,614,000	£0	£457,614,000
Total	29,777	£119,826,905	£1,074,904,000	£340,393,000	£1,415,297,000
Av. Rent/Value		£77	£45,000	£58,000	£48,000

2.7 We have graded the portfolio according to its category-type by attempting to reflect its relationship to core business, its size, its level of activity and its demand within the social housing sector, as follows:

1 - General Needs

2 - Shared Ownership

3 - Sheltered

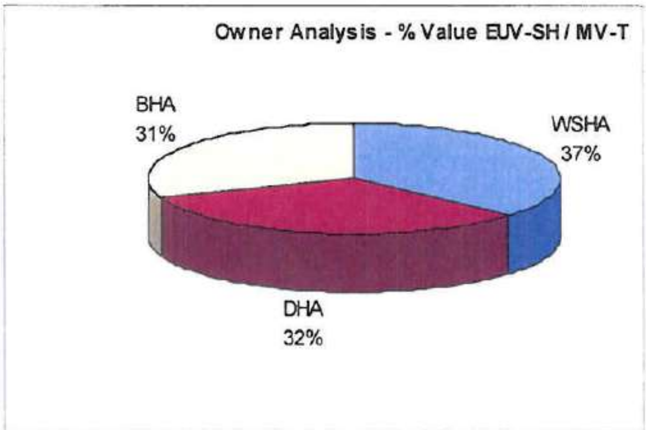
4 - Miscellaneous (encompassing market rents, keyworkers etc)

2.8 We have then analysed the portfolio in terms of the quantum in rent and value across the subsidiary owners, the various regions and the differing categories of property, and summarise our main conclusions below.

Owner Analysis

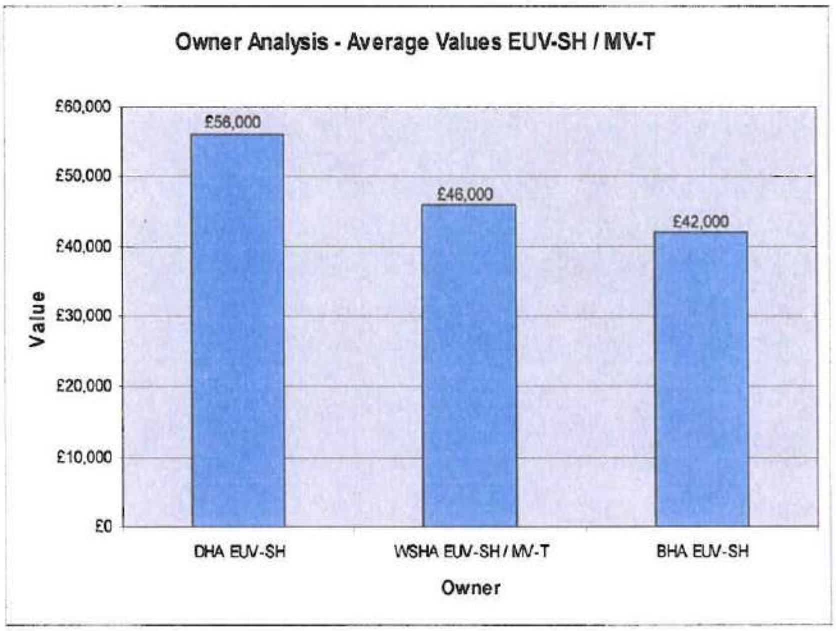
2.9 We present below a breakdown of the portfolio's overall aggregate valuation figures by subsidiary owner:

Owner	Average Grade	Units	Total EUV-SH / MV-T
WSHA	1.2	11,260	£519,393,000
BHA	1.4	10,394	£438,290,000
DHA	1.1	8,123	£457,614,000
Total		**29,777**	**£1,415,297,000**
Av. Value			**£48,000**



2.10 WSHA have the strongest proportion of stock, though this is a nationwide spread. BHA and DHA have less numbers but due to their South-East location, their proportional value-holding is not significantly lower. On the whole, the value is relatively evenly split.

2.11 Analysing value on an average per unit basis, DHA clearly dominates with WSHA and BHA within a relatively similar band range, as shown below:



2.12 In view of a proportion of the WSHA stock being valued on an MV-T basis and BHA/DHA being restricted to EUV-SH, the former would be expected to have the strongest average per unit value – this is not the case due to: a) the nationwide spread of WSHA properties where passing and target rents will be lower than BHA and DHA's South-East stock; b) the fact that WSHA accounts for almost 40% of the overall portfolio's sheltered stock, which has the marginal impact of bringing down average values; and c) the comparatively low proportion of stock designated for MV-T valuation within this exercise.

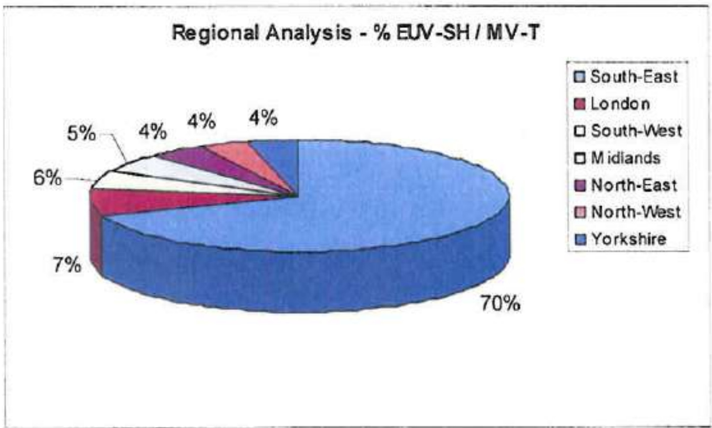
Regional Analysis

2.13 Again we have broken down the portfolio's overall aggregate valuation figures and analysed the spread of values across the various regions:

Region	Units	As %
South-East	19,701	66%
Midlands	2,357	8%
Yorkshire	1,977	7%
North-West	1,688	6%
North-East	1,598	5%
South-West	1,371	5%
London	1,085	4%
Total	**29,777**	**100%**

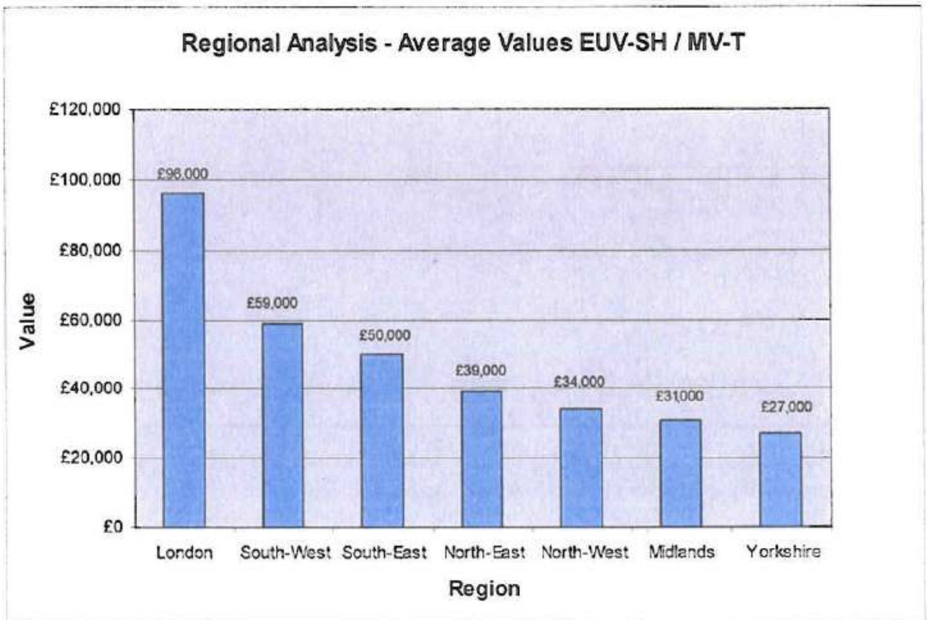
Region	Average Grade	Units	Total EUV-SH / MV-T
South-East	1.3	19,701	£984,724,000
London	1.3	1,085	£103,633,000
Midlands	1.4	2,357	£73,070,000
Yorkshire	1.1	1,977	£53,750,000
South-West	1.0	1,371	£80,290,000
North-East	1.0	1,598	£62,840,000
North-West	1.0	1,688	£56,990,000
Total		**29,777**	**£1,415,297,000**
Av. Value			**£48,000**

2.14 London/South-East (holding all BHA and DHA stock and a proportion of the WSHA stock) dominates with 70% of the overall portfolio. The remaining properties are spread relatively evenly in strong clusters nationwide. Further, we would note that four regions predominantly hold core general needs stock only, with the remaining three being a mixture of mainly general needs, together with shared ownership, sheltered and miscellaneous stock.



2.15 This unit spread is, by and large, replicated in value where, again, London/South-East takes 77% of the portfolio's value.

2.16 Analysing value on an average per unit basis, the value spread is as expected, ranging from £96,000 for London (comprising, amongst others, of WSHA stock valued on an MV-T basis), to £27,000 for Yorkshire, as shown below:

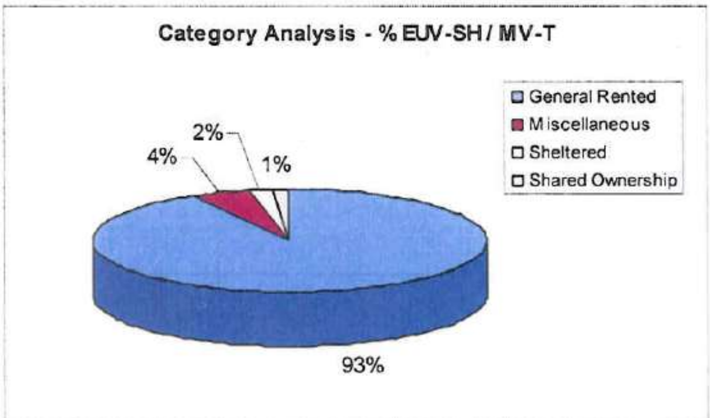


2.17 We would reiterate that as the vast majority of the stock is restricted by designation to EUV-SH, the average values shown above are a direct reflection of the passing and target rents, which in itself has a direct relation to locality with London/South-East having the strongest rents and the northern regions predominantly having lower rents.

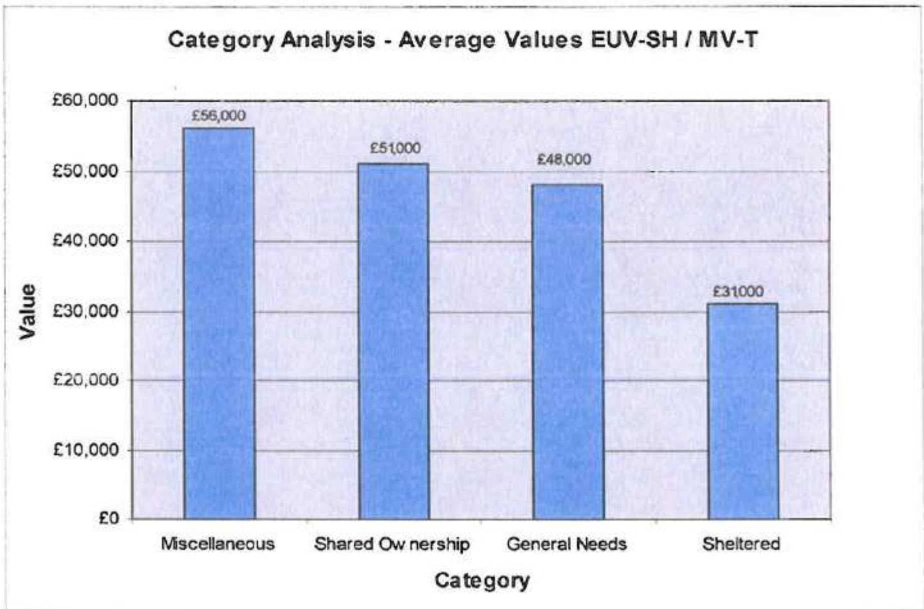
Category Analysis

2.18 The breakdown by category is shown below:

Category	Units	Total EUV-SH
General Needs	27,295	£1,302,723,000
Miscellaneous	1,138	£63,624,000
Sheltered	953	£29,140,000
Shared Ownership	391	£19,810,000
Total	**29,777**	**£1,415,297,000**
Av. Value		£48,000



2.19 As expected, the core general rated stock dominates and accounts for 93% of the portfolio's overall value. The average per unit profile is shown below:



2.20 The miscellaneous category comprises of keyworker and market rented units where rental streams are comparatively high, and therefore the average per unit values for this grouping is the strongest.

2.21 The shared ownership and general needs figures are within the same value-range, whilst the sheltered figure is significantly lower.

2.22 The average per unit figures shown above, both in quantum and profile, are as expected for a large nationwide social housing portfolio.

Suitability of Stock

2.23 We would reiterate that the vast majority of the portfolio has been valued on an EUV-SH basis, as instructed by the Group, whilst in some cases the valuations have had to be restricted to this basis due to legal considerations (i.e. restrictive covenants or binding Section 106 obligations requiring the properties to be retained within the social housing sector), or our judgement as to the nature of the property. However, subject to these restrictions and with further regard to the caveats within this Valuation Report, we would regard the overall portfolio as marketable and mortgageable.

2.24 The average assessed capital values of the portfolio fall below comparable Land Registry statistics, but this is likely to be due to: a) the RSL tone of the portfolio; and b) the fact that the Land Registry figures would be dominated by private ownership specification sales.

2.25 The current average passing rents are at similar levels to that being charged by other RSL's within the subject Boroughs and Local Authorities. The general needs properties cover a wide range in terms of comparisons to target levels but the vast majority of rents are significantly lower than our estimates of comparative market rents.

2.26 The EUV-SH and MV-T values per unit are at expected levels in relation to comparative exercises, having regard to the portfolio's composition, type, location and tenure mix.

2.27 With the above factors in mind and with particular regard to the continuing need for well maintained social housing accommodation (for rented, sheltered and "part-buy/part-rent" shared ownership vehicles), we believe it reasonable to conclude an acceptable demand - at the values reported - for stock of this nature from commensurate social housing landlords and, where applicable, from private institutional investment firms.

3. General Methodology

Cashflow Valuation Models

3.1 We have undertaken our valuations using fully explicit discounted cashflow models, over a 50-year period, with the net income in the final year capitalised into perpetuity.

3.2 Against the income receivable, we have made allowances for voids and bad debts; the costs of management and administration; major repairs; cyclical maintenance; and day-to-day repairs; and have also allowed for the turnover of tenancies (relets). Further, we have assumed an appropriate level of future growth in rental income and all forms of expenditure.

3.3 We have then discounted the resulting net income stream at an appropriate rate. The rate reflects our judgement of the economic and financial market conditions at the date of the valuation and the overall level of risk involved in the cashflow.

3.4 To judge the risk involved, we have considered the sustainability of the existing rental income and the likely level of future rental growth; the condition of the stock and the level of outgoings required to maintain the income stream; and the likely performance of the stock in relation to type and location.

3.5 We have valued the stock from each of the three subsidiary owners separately.

3.6 For WSHA, BHA and DHA, we have produced 55, 8 and 5 cashflows respectively across 7 regions nationwide.

3.7 In general, we have valued the general needs and sheltered stock within single cashflows, the shared ownership stock within their own stand-alone cashflows, and finally the miscellaneous stock separately (again via cashflows, noting the "sold" long leaseholds, shops and other non-residential properties have been allocated nil values, on agreement).

Sources of Information

3.8 The principal source of background data for this exercise are the property schedules and rent roll of the Group's full stockholding as at 31 March 2008 (which incorporates the 2008/2009 rental stream), and as agreed, this information is assumed to be correct as at 12 September 2008.

3.9 This information was supplemented with:- a) detailed discussions/agreements relating to the data within the property schedules; b) further discussions in respect to the Group's rent restructuring regime and Decent Home Standards programme; and c) our own market research and experience of comparable valuation exercises.

Inspections

3.10 We have, at varying times from 2006 onwards, inspected a cross-sectional sample of the full portfolio.

3.11 Both through the previous and most current inspections, we have satisfied ourselves as to the quality of location and the general condition and level of fixtures and fittings provided to the properties, and we have derived our valuation assumptions accordingly.

3.12 We have assumed that all properties are being managed and maintained to a satisfactory social housing standard in terms of: a) setting and collecting rent; b) managing rent losses; c) ensuring the reletting; d) ensuring optimum running maintenance controls (responsive and cyclical repairs); e) ensuring long-term capital expenditure (major repairs) programmes; and f) ensuring service charge income/expenditure parity.

4. General Commentary

General Description

4.1 The portfolio is summarised below:

Owner	Region	Category	Units	As %
WSHA	Midlands	General Needs	2,351	8%
		Shared Ownership	6	0%
	Yorkshire	General Needs	1,977	7%
	North-West	General Needs	1,688	6%
	North-East	General Needs	1,598	5%
	South-West	General Needs	1,371	5%
	South-East	General Needs	1,166	4%
		Shared Ownership	18	0%
	London	General Needs	1,085	4%
	Sub-Total		*11,260*	*38%*
BHA	South-East	General Needs	8,459	28%
		Sheltered	953	3%
		Miscellaneous	797	3%
		Shared Ownership	185	1%
	Sub-Total		*10,394*	*35%*
DHA	South-East	General Needs	7,600	26%
		Miscellaneous	341	1%
		Shared Ownership	182	1%
	Sub-Total		*8,123*	*27%*
Total			**29,777**	**100%**

Region:

- 7 general regions;
- Nationwide spread, with strongest concentrations being in South-East and London (70%) and the balance evenly spread across the remaining 5 regions.

Category:

- 27,295 general needs properties;
- 1,138 miscellaneous properties (encompassing market rents, keyworkers etc);
- 953 sheltered properties;
- 391 shared ownership properties.

Stock-type:

- As a general overall perspective, the WSHA stock is dominated by 1960s/1970s Local Authority estate based properties, with a small proportion being of non-standard Pre-Cast Concrete (PRC) construction.
- BHA is exclusively "Large Scale Voluntary Transfer" (LSVT) estate based stock and predominantly of post-war red-brick construction.
- DHA comprises a mixture of LSVT estate based stock, together with a mixture of:
  - *Victorian street properties providing accommodation as houses/conversions;*
  - *1930's terraced houses;*
  - *1950's red-brick estate based houses and purpose-built blocks;*
  - *1970's cul-de-sac, estate and municipal type terraced housing and purpose-built blocks;*
  - *1980's, 1990's and post-2000 infill and S106 obligatory schemes of terraced housing and purpose-built blocks.*
- We have assumed that the general needs and shared ownership stock is almost exclusively self-contained flats/houses, and the sheltered stock is configured and adapted accordingly, but with a comparative low level of care.

Tenure

4.2 We have previously reviewed the Certificates of Title of a representative sample of the bulk of this portfolio and this has been supplemented by a review of the most recent set of properties designated for charging within this facility, the details of which were prepared by Winckworth Sherwood Solicitors.

4.3 We have reflected the respective disclosures within our reported valuation figures.

4.4 Specifically, we have assumed that the Group hold a freehold interest or long leasehold (of at least 80 years) for each property, and where the Certificates of Title informed of lease lengths less than this term, we have made the appropriate adjustments in our valuations.

4.5 We are of the opinion that there is not a material difference in value between freehold and long leasehold residential properties and we have therefore not differentiated between the two – this is standard practice within the residential sector.

Planning, Building Regulations and Related Approvals

4.6 We have not measured any of the properties.

4.7 We have assumed that all the properties have the necessary consents for the existing use and that none of the buildings are listed or lie within a Conservation Area.

4.8 We have made no enquiries from the Local Authority to establish if there are any requirements or plans which are sufficiently onerous as to create a "blight" and therefore have a material detrimental impact on value.

4.9 We have assumed that the properties conform to all Building Regulations and all other statutory requirements.

Services

4.10 We have assumed all mains supplies of utility services and commercially acceptable forms of internal heating, but would reiterate that these have not been tested by us.

Environmental, Ground and Structural Considerations

4.11 In forming our assessment, we have not carried out our own investigation into the presence or otherwise of contaminative substance, or substances which may give rise to contamination in any form whatsoever. We are unable to guarantee or warrant that the properties have not, and have never been subject to contaminative uses or are not contaminated. These are matters upon which the client, or anyone else relying upon this valuation, must satisfy themselves. However, our valuations are prepared on the assumption that no contaminative substances are present on the properties or nearby so as to affect the same.

4.12 We have not undertaken any survey in relation to the ground conditions at any of the properties. We do not have any information on ground conditions, adverse or otherwise.

4.13 Our valuations are prepared on the assumption that there are no adverse ground conditions affecting any of the properties.

4.14 We have not carried out a structural survey of the properties, neither have any parts been opened up or examined nor those areas which were covered or inaccessible, including roofs, have not been inspected. No advice can therefore be given with regard to the condition of the property or whether it is free from rot, beetle or other defects.

Unit Mix and Tenancies

4.15 The portfolio has been valued as shown below:

- 15,859 houses;
- 12,888 flats;
- 1,030 sheltered.

4.16 We have assumed that the Group carry out full day-to-day operational duties and long-term asset management of the properties (as a responsible RSL in line with Housing Corporation guidelines).

4.17 For the general needs and sheltered stock, this would be letting the properties, collecting rent, restricting voids and bad debts, maintaining the properties via responsive repairs and long-term cyclical and major repairs, and ensuring service charge income/expenditure parity.

4.18 For the shared ownership category, we have assumed standard modern arrangements whereby the Group are responsible for collecting rent, communal/external maintenance only (the costs being offset by service charge payments), together with facilitating staircasing and possibly onward sales.

4.19 In terms of tenancy type, we have valued the portfolio as:

- 25,508 assured, shared ownership, market rented/keyworker units;
- 4,269 secure tenancies.

Construction and Condition of Stock

4.20 We have assumed:

- the Victorian, inter-war and most post-war properties to be of solid brick design;
- the late-1960's and 1970's properties possibly of partial non-conventional construction (but in the main deemed mortgageable by most High Street lenders having made the strict assumption that these property types, in particular, are not covered by Defective Premises legislation);
- the post-1980's properties of standard modern brick/block cavity construction;
- that the premises greater than 5-storey in height are of steel frame or reinforced concrete structures with block/render facing or a brick skin.

4.21 We have not been supplied with details of a Decent Homes Standards Report, but have assumed that the properties either comply or are in the process (via a designated programme) of full compliance within the required timeframe.

4.22 We have assumed that the properties are being maintained to an acceptable social housing standard, in line with Housing Corporation regulatory requirements and commensurate with the likely demands of the target tenant group.

4.23 Overall, we have assumed that each property has a useful economic life of at least 50 years providing that the properties continue to be properly maintained into the future.

5. Assumptions Commentary

Key Assumptions

5.1 EUV-SH is the underlying basis of value for social housing portfolios. As such, we have attached as Appendix III a full breakdown of our EUV-SH valuation assumptions by owner, estate/region and category, and present below the overall weighted averages calculated across the full portfolio :

Parameter	EUV-SH Weighted Average Assumptions
Units	29,777
Type split	15,859 house, 12,888 flat, 1,030 sheltered
Tenure Split	24,678 assured, 439 assured shorthold, 4,269 secure, 391 s/o
Average Year 1 Rent (per unit pw)	£77
Voids and Bad Debts	2.5%
Relet/Sales Rate	4.7%
Yr 1 Management (per unit pa)	£510
Yr 1 Major Repairs	£720
Yr 1 Cyclical Repairs	£300
Yr 1 Responsive/Voids Repairs	£360
Management Cost Inflation	1%
Repair Cost Inflation	1%
Discount Rate	5.5% income, 7.9% sales

Overall Rental Levels

5.2 The average rent across the WSHA, BHA and DHA stock is £65, £85 and £85 per week respectively, with an overall weighted average for the full portfolio of £77 per week.

5.3 These rents are higher than the national average, but it should be noted that a large proportion of the stock is in the South-East.

5.4 The Housing Corporation introduced a new rent influencing regime with effect from 1 April 2002. Under the regime, RSLs are required to restructure their rents from current levels to target rents over a period of ten years. Moreover, rent restructuring is to be carried out within the parameters of RPI plus 0.5%, plus or minus £2 per week, until target rents are reached. Thereafter, the normal maximum permissible growth is RPI plus 0.5%.

WSHA

5.5 During December 2001 and January 2002, we undertook a separate valuation exercise for WSHA in connection with rent restructuring and the Association's preparation of the necessary rent plan. This valuation exercise involved the selection of representative beacon properties to cover all types and locations within the housing stock. These beacon properties were inspected and valued by reference to local comparable evidence.

5.6 The individual valuations were then adjusted to the relevant valuation date required by the Housing Corporation guidance, January 1999. We then calculated target rents for all its properties in accordance with the formula laid down by the Housing Corporation in its published Guidance.

5.7 Within each of the valuation models on the basis of EUV-SH, we have made our own analysis for each estate of the appropriate level of rental growth required to achieve rent restructuring over the remaining period to 31 March 2012. Where applicable, we have carried out separate analysis for houses, and flats.

5.8 From Year 4 of our cashflows onwards, all rents are assumed to grow at 0.5% real per annum.

BHA and DHA

5.9 We would confirm that we have adopted both Associations' own target rent calculations within our valuations. These are in line with our own assessments and we believe this programme would be utilised by a Funder in possession.

Market Rents

5.10 In respect to market rents, when considering the upper level of annual rents for our MV-T cashflows, we have contacted a number of letting agents active in the areas to determine typical current open market rents. Rents currently charged by the Group are well below the rents that could be achieved on the open market. The difference is most pronounced in the South East and we have reflected this potential for future rental growth in our cashflow models.

5.11 In all of our MV-T valuations we have assumed that it will take 3 years for rents to meet market levels. Thereafter we have assumed that rents will grow at 1% real per annum.

Secure Tenancies

5.12 With regard to the secure tenancies on each estate, our valuation takes account of the Rent Acts (Maximum Fair Rent) Order 1999, which restricts increases in fair rents to a maximum of RPI plus 7.5% of the existing registered rent on the first re-registration, and RPI plus 5% on subsequent re-registrations. Our valuations assume that the first re-registration has already taken place.

Voids and Bad Debts

5.13 We have made an allowance in our valuations for loss of rental income due to voids and bad debts.

5.14 We have had regard to the Group's current experience of loss of rental income from voids for each owner and where possible on each estates or within each region, and have applied our professional judgement to the likely level of future bad debts and voids based on previous experience.

5.15 For our valuation on the basis of MV-T, we have adopted higher rate loss of gross income for the first three years when we are assuming the greatest rate of rental growth. In our opinion the sharp increase in rents will inevitably be reflected in a higher level of voids and bad debts. Thereafter for the majority of the estates we have assumed that the level of voids and bad debts will at a lower level.

Relet Rates

5.16 In our EUV-SH valuations, we have built in what we expect to be long-term sustainable rates of re-letting over the 50 years of our cashflow models.

5.17 In our MV-T valuation when properties become vacant they are sold rather than relet.

Inflation

5.18 Our cashflow valuation models are prepared in real terms. It follows that there are no relevant assumptions to disclose as to the future rate of inflation.

Discount Rate

5.19 Our cashflow valuations are based on constant prices and therefore explicitly exclude inflation. The chosen discount rate reflects our judgement of the economic conditions at the time of the valuation and the level of risk involved in each cashflow, taking all factors and assumptions into account.

5.20 To determine the risk involved we give regard to:-

- the sustainability of the existing rental income;
- the likely rate of future rental growth;
- the condition of the stock;
- the level of outgoings required to maintain the maximum income stream;
- the likely performance of the stock in relation to its profile and location;
- the real cost of borrowing; and
- the long-term rate of gilts.

5.21 In our valuations on the basis of MV-T we have adopted higher discount rates for the income and sales. We have adopted the higher discount rate for the sales to reflect the greater risk and uncertainty as to the timing and amount of any receipts from the sale of voids.

Repair and Maintenance Costs

5.22 We have reflected in our valuation models detailed projected expenditure under three headings:

- major repairs and planned maintenance;
- cyclical repairs; and
- day-to-day and responsive repairs.

5.23 We have had regard in each case to the Group's current expenditure under these headings, and have also had regard to the age, condition and type of properties on each estate.

5.24 We have adopted a high level of major repairs in years 1-2 of our MV-T cashflows as we assume that a private landlord would elect to spend a certain amount on redecorating and renewing certain elements of the properties in order to command the best market rents.

Management Costs

5.25 We have had regard to the Group's current costs of management.

Building and Management Costs Inflation

5.26 We have adopted long-term growth for the costs of major, cyclical and responsive repairs, of 1% real.

5.27 Similarly, we have adopted a 1% real growth of the Group's management and administrative costs. The cost of labour is the principal driver of management and administrative costs, and we have reflected this in our assumption.

The Housing Market

5.28 The Monetary Policy Committee most recently met on 4 September and announced that interest rates would remain at 5.00%. This is due to the weakening in the housing market and other turmoil in the financial markets. The last change in Bank Rate was a reduction of 0.25 percentage points to 5.0% on 10 April 2008.

5.29 GDP growth forecasts for this year were initially reduced from 2.5% to 1.8%, which has more recently been cut to 1.5%.

5.30 In its Inflation Report of August 2008 The Bank of England Monetary Policy Committee highlighted that the major risks to any projections for inflation were:

- the outlook for consumer spending;
- the prospects for net exports;
- the sustainability of interest rates;
- the margin of spare capacity; and
- the evolution of energy prices and their impact on inflation.

5.31 Overall there was considerable uncertainty about the path of inflation, both in the near term and further ahead, but the balance of risks indicated that inflation is likely to rise at least in the short term.

5.32 Nationwide Building Society and HBOS recently released their latest statistics for national house price growth up to August 2008. These were as follows:

	HBOS	Nationwide
House price growth (monthly change)	-1.8%	-1.9%
House price growth (annual change)	-10.9%	-10.5%
Average house price	£174,178	£164,654

5.33 Nationwide and HBOS reported that house prices fell by 1.9% and 1.8% respectively in August highlighting a significant house price fall and continuing a run of month on month declines. According to Nationwide's statistics, prices in August were therefore £19,000 lower than this time last year and that the annual decline is now into double digits for the first time since 1990. House prices have now been falling for ten consecutive months.

5.34 Nationwide comment that market activity is subdued, and house builders in particular have received fewer site visits from potential purchasers. However, estate agents report that they may be some interest returning to the market. In spite of this, the increased number of properties currently on the market in relation to lower demand is bound to have a dampening effect on prices.

5.35 Nationwide also comment that in the current economic uncertainty, more borrowers are opting for expensive fixed rate mortgages as opposed to tracker mortgages which are initially cheaper.

5.36 Nationwide continue to predict that the Monetary Policy Committee next move in the bank rate will be down.

5.37 According to HBOS, the house price to earnings ratio has fallen from a peak of 5.84 in July 2007 to 5.13 in June 2008.

5.38 HBOS note that although prices are declining, the market is still being supported by low interest rates, a strong labour market, and a lack of supply of new stock. They also state the increase in the stamp duty threshold should ease the burden on house buyers, and that twice the number of last years sales would have been exempt from stamp duty had the measures been in place.

5.39 The properties in this portfolio are in established residential areas and have local amenities close by. Overall, we believe that reasonable demand currently exists from local occupiers in the areas. At realistic prices, we are of the opinion that sales with vacant possession of the houses within this portfolio could be achieved.

6. Bases of Valuation

Existing Use Value for Social Housing

6.1 The definition of Existing Use Value for Social Housing as set out in the Royal Institution of Chartered Surveyors' Valuation Standards 6th Edition ("Red Book") reads as follows:

"Existing Use Value for Social Housing (EUV-SH) is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further Assumptions that:

(i) the property will continue to be let by a body pursuant to delivery of a service for the existing use;

(ii) at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organizations intending to manage their housing stock in accordance with that regulatory body's requirements;

(iii) properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than sell them with vacant possession; and

(iv) any subsequent sale would be subject to all of the above Assumptions."

Market Value

6.2 The Valuation Standards define Market Value as follows:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

6.3 Market Value subject to the existing tenancies (MV-T) is not specifically defined in the Valuation Standards. However, this means that the properties are valued subject to the special assumption that each is let on either an assured or secure tenancy, as is in place on the date of valuation, and at an affordable rent. It is a recognised and established basis of valuation for loan security purposes in the social housing sector.

Sales Expense and Tax

6.4 No allowance is made in our valuation for any expenses of realisation.

6.5 No allowance is made in our valuations for any liability for payment of Corporation Tax, or for any liability to Capital Gains Tax, whether existing or which may arise in the future. Further, our valuations are exclusive of VAT on disposal.

APPENDIX II

Valuation Breakdown Summary

AFFINITY SUTTON - PRUDENTIAL TRUSTEE COMPANY LIMITED
VALUATION BREAKDOWN SUMMARY
12-Sep-08

							Units	Rent	Aggregate Valuations				Valuations Per Unit			
Cashflow	Owner	Region	Town	Estate	Type of Housing	DJ Category	Total	Average pw	EUV-SH	Net EUV-SH	Net MV-T	EUV-SH / MV-T	EUV-SH pu	Net EUV-SH pu	Net MV-T pu	EUV-SH / MV-T pu
1	WSHA	London	London	Bethnal Green	General Needs	General Needs	190	£78.28	£10,290,000	£10,290,000	£0	£10,290,000	£54,000	£54,000	£0	£54,000
2	WSHA	London	London	Islington	General Needs	General Needs	141	£87.34	£9,290,000	0	£19,640,000	£19,640,000	£66,000	£0	£139,000	£139,000
3	WSHA	London	London	Kingston-Upon-Thames	General Needs	General Needs	147	£95.52	£10,860,000	0	£23,190,000	£23,190,000	£74,000	£0	£158,000	£158,000
4	WSHA	London	London	St Quintin	General Needs	General Needs	500	£81.00	£33,300,000	£33,300,000	£0	£33,300,000	£67,000	£67,000	£0	£67,000
5	WSHA	South-East	Bedford	Bedford	General Needs	General Needs	59	£69.70	£2,240,000	0	£3,590,000	£3,590,000	£38,000	£0	£61,000	£61,000
6	WSHA	South-East	Bedfordshire	Bedford Kempston	General Needs	General Needs	33	£82.92	£1,670,000	0	£2,930,000	£2,930,000	£51,000	£0	£89,000	£89,000
7	WSHA	South-East	Chelmsford	Chelmsford	General Needs	General Needs	252	£86.62	£14,280,000	0	£24,370,000	£24,370,000	£57,000	£0	£97,000	£97,000
8	WSHA	South-East	Hemel Hempstead	Hemel Hempstead Grovehill	General Needs	General Needs	225	£80.83	£11,710,000	0	£20,260,000	£20,260,000	£52,000	£0	£90,000	£90,000
9	WSHA	South-East	Hitchin	Hitchin	General Needs	General Needs	49	£93.79	£3,220,000	£3,220,000	£0	£3,220,000	£66,000	£66,000	£0	£66,000
10	WSHA	South-East	Leatherhead	Leatherhead	General Needs	General Needs	25	£96.25	£1,930,000	£1,930,000	£0	£1,930,000	£77,000	£77,000	£0	£77,000
11	WSHA	South-East	Luton	Luton	General Needs	General Needs	117	£72.39	£5,190,000	£5,190,000	£0	£5,190,000	£44,000	£44,000	£0	£44,000
12	WSHA	South-East	Milton Keynes	Milton Keynes Old Charged	General Needs	General Needs	58	£73.18	£2,320,000	0	£5,120,000	£5,120,000	£40,000	£0	£88,000	£88,000
13	WSHA	South-East	Milton Keynes	Milton Keynes New Charged	General Needs	General Needs	55	£88.46	£3,250,000	£3,250,000	£0	£3,250,000	£59,000	£59,000	£0	£59,000
14	WSHA	South-East	Stevenage	Stevenage	General Needs	General Needs	285	£87.17	£17,030,000	£17,030,000	£0	£17,030,000	£60,000	£60,000	£0	£60,000
15	WSHA	South-East	Stevenage	Stevenage	Shared Ownership	Shared Ownership	18	£38.14	£810,000	£810,000	£0	£810,000	£45,000	£45,000	£0	£45,000
16	WSHA	South-West	Plymouth	Barne Barton	General Needs	General Needs	227	£52.91	£4,510,000	0	£10,340,000	£10,340,000	£20,000	£0	£46,000	£46,000
17	WSHA	South-West	Bristol	Bristol	General Needs	General Needs	223	£76.97	£9,850,000	0	£16,450,000	£16,450,000	£44,000	£0	£74,000	£74,000
18	WSHA	South-West	Plymouth	Central Plymouth	General Needs	General Needs	43	£53.91	£780,000	0	£2,040,000	£2,040,000	£18,000	£0	£47,000	£47,000
19	WSHA	South-West	Plymouth	Crownhill Plymouth	General Needs	General Needs	157	£49.09	£2,460,000	0	£7,960,000	£7,960,000	£16,000	£0	£51,000	£51,000
20	WSHA	South-West	Exeter	Exeter	General Needs	General Needs	48	£68.31	£1,620,000	0	£3,990,000	£3,990,000	£34,000	£0	£83,000	£83,000
21	WSHA	South-West	Plymouth	Ferndale Road Plymouth	General Needs	General Needs	101	£59.59	£2,450,000	0	£5,830,000	£5,830,000	£24,000	£0	£58,000	£58,000
22	WSHA	South-West	Plymouth	Leigham	General Needs	General Needs	188	£62.22	£4,950,000	0	£12,410,000	£12,410,000	£26,000	£0	£66,000	£66,000
23	WSHA	South-West	Plymouth	St Budeaux	General Needs	General Needs	384	£61.42	£8,870,000	0	£21,270,000	£21,270,000	£23,000	£0	£55,000	£55,000
24	WSHA	Midlands	Stoke	Abbey Hulton	General Needs	General Needs	366	£55.18	£6,660,000	£6,660,000	£0	£6,660,000	£18,000	£18,000	£0	£18,000
25	WSHA	Midlands	Leicester	Leicester	General Needs	General Needs	253	£64.80	£7,050,000	£7,050,000	£0	£7,050,000	£28,000	£28,000	£0	£28,000
26	WSHA	Midlands	Nottingham	Nottingham	General Needs	General Needs	125	£57.26	£2,180,000	0	£4,970,000	£4,970,000	£17,000	£0	£40,000	£40,000
27	WSHA	Midlands	Rugby	Rugby New Charge	General Needs	General Needs	386	£71.50	£15,790,000	£15,790,000	£0	£15,790,000	£41,000	£41,000	£0	£41,000
28	WSHA	Midlands	Rugby	Rugby	Shared Ownership	Shared Ownership	6	£44.01	£280,000	£280,000	£0	£280,000	£47,000	£47,000	£0	£47,000
29	WSHA	Midlands	Stafford	Stafford	General Needs	General Needs	154	£73.48	£5,380,000	£5,380,000	£0	£5,380,000	£35,000	£35,000	£0	£35,000
30	WSHA	Midlands	Tamworth	Tamworth	General Needs	General Needs	343	£62.19	£8,510,000	£8,510,000	£0	£8,510,000	£25,000	£25,000	£0	£25,000
31	WSHA	Midlands	Stoke	Trent Vale	General Needs	General Needs	317	£58.09	£6,640,000	0	£13,480,000	£13,480,000	£21,000	£0	£43,000	£43,000
32	WSHA	Yorkshire	Bradford	Bradford Old Charged	General Needs	General Needs	379	£64.01	£7,190,000	0	£13,800,000	£13,800,000	£19,000	£0	£36,000	£36,000
33	WSHA	Yorkshire	Bradford	Bradford New Charged	General Needs	General Needs	200	£55.63	£3,730,000	£3,730,000	£0	£3,730,000	£19,000	£19,000	£0	£19,000
34	WSHA	Yorkshire	Hull	Hull Old Charge	General Needs	General Needs	444	£58.40	£10,970,000	£10,970,000	£0	£10,970,000	£25,000	£25,000	£0	£25,000
35	WSHA	Yorkshire	Hull	Hull New Charge	General Needs	General Needs	32	£59.00	£740,000	£740,000	£0	£740,000	£23,000	£23,000	£0	£23,000
36	WSHA	Yorkshire	Hull	Hull Central	General Needs	General Needs	54	£51.20	£770,000	£770,000	£0	£770,000	£14,000	£14,000	£0	£14,000
37	WSHA	Yorkshire	Leeds	Leeds Killingbeck	General Needs	General Needs	231	£58.21	£5,530,000	0	£9,040,000	£9,040,000	£24,000	£0	£39,000	£39,000
38	WSHA	Yorkshire	Leeds	Leeds Selby Road	General Needs	General Needs	304	£56.20	£5,820,000	£5,820,000	£0	£5,820,000	£19,000	£19,000	£0	£19,000
39	WSHA	Yorkshire	Sheffield	Sheffield	General Needs	General Needs	333	£64.61	£8,880,000	£8,880,000	£0	£8,880,000	£27,000	£27,000	£0	£27,000
40	WSHA	North-East	Newcastle	Barrack Road	General Needs	General Needs	138	£54.18	£1,890,000	0	£6,810,000	£6,810,000	£14,000	£0	£49,000	£49,000
41	WSHA	North-East	Middlesbrough	Middlesbrough	General Needs	General Needs	498	£62.92	£10,520,000	0	£21,980,000	£21,980,000	£21,000	£0	£44,000	£44,000
42	WSHA	North-East	Middlesbrough	Middlesbrough Central	General Needs	General Needs	148	£55.55	£2,140,000	£2,140,000	£0	£2,140,000	£14,000	£14,000	£0	£14,000
43	WSHA	North-East	Newcastle	South Shields Cleadon Old Cl	General Needs	General Needs	453	£60.56	£10,300,000	0	£20,200,000	£20,200,000	£23,000	£0	£45,000	£45,000
44	WSHA	North-East	Newcastle	South Shields Cleadon New C	General Needs	General Needs	61	£54.29	£1,110,000	£1,110,000	£0	£1,110,000	£18,000	£18,000	£0	£18,000
45	WSHA	North-East	Newcastle	South Shields Tyne Dock	General Needs	General Needs	300	£54.72	£4,800,000	0	£10,600,000	£10,600,000	£16,000	£0	£35,000	£35,000
46	WSHA	North-West	Bolton	Bolton Long Lane	General Needs	General Needs	218	£60.08	£5,260,000	0	£9,630,000	£9,630,000	£24,000	£0	£44,000	£44,000
47	WSHA	North-West	Bolton	Bolton Platt Hill	General Needs	General Needs	356	£54.25	£6,870,000	0	£12,930,000	£12,930,000	£19,000	£0	£36,000	£36,000
48	WSHA	North-West	Manchester	Manchester	General Needs	General Needs	401	£59.76	£7,280,000	£7,280,000	£0	£7,280,000	£18,000	£18,000	£0	£18,000
49	WSHA	North-West	Salford	Salford	General Needs	General Needs	157	£65.73	£3,860,000	£3,860,000	£0	£3,860,000	£25,000	£25,000	£0	£25,000
50	WSHA	North-West	Warrington	Warrington	General Needs	General Needs	475	£60.01	£12,570,000	0	£20,350,000	£20,350,000	£26,000	£0	£43,000	£43,000
51	WSHA	North-West	Widnes	Widnes	General Needs	General Needs	81	£72.05	£2,940,000	£2,940,000	£0	£2,940,000	£36,000	£36,000	£0	£36,000
52	WSHA	Midlands	Birmingham	Birmingham	General Needs	General Needs	326	£63.94	£8,530,000	£8,530,000	£0	£8,530,000	£26,000	£26,000	£0	£26,000
53	WSHA	South-East	Chelmsford	Chelmsford	General Needs	General Needs	8	£91.83	£1,120,000	£1,120,000	£0	£1,120,000	£140,000	£140,000	£0	£140,000
54	WSHA	London	City of London	City of London	General Needs	General Needs	107	£80.03	£6,015,000	0	£17,213,000	£17,213,000	£56,000	£0	£161,000	£161,000
55	WSHA	Midlands	Kidsgrove	Kidsgrove	General Needs	General Needs	81	£65.85	£2,420,000	£2,420,000	£0	£2,420,000	£30,000	£30,000	£0	£30,000
56	BHA	South-East	-	Broomleigh	General Needs	General Needs	8111	£85.70	£334,100,000	£334,100,000	£0	£334,100,000	£41,000	£41,000	£0	£41,000
57	BHA	South-East	-	Broomleigh	Sheltered	Sheltered	953	£70.57	£29,140,000	£29,140,000	£0	£29,140,000	£31,000	£31,000	£0	£31,000
58	BHA	South-East	-	Broomleigh	High Rise Non PRC	General Needs	194	£70.83	£4,680,000	£4,680,000	£0	£4,680,000	£24,000	£24,000	£0	£24,000
59	BHA	South-East	-	Broomleigh	PRC Other	Miscellaneous	363	£99.52	£19,040,000	£19,040,000	£0	£19,040,000	£52,000	£52,000	£0	£52,000
60	BHA	South-East	-	Broomleigh	Keyworker Accommodation	Miscellaneous	325	£90.84	£18,380,000	£18,380,000	£0	£18,380,000	£57,000	£57,000	£0	£57,000
61	BHA	South-East	-	Broomleigh	Market Rented	Miscellaneous	109	£130.16	£8,560,000	£8,560,000	£0	£8,560,000	£79,000	£79,000	£0	£79,000
62	BHA	South-East	-	Broomleigh	Shared Ownership	Shared Ownership	185	£34.52	£9,550,000	£9,550,000	£0	£9,550,000	£52,000	£52,000	£0	£52,000
63	BHA	South-East	-	Broomleigh	Hanover Park	General Needs	154	£133.18	£14,840,000	£14,840,000	£0	£14,840,000	£96,000	£96,000	£0	£96,000
64	DHA	South-East	-	Downland	General Needs	General Needs	7600	£86.40	£430,800,000	£430,800,000	£0	£430,800,000	£57,000	£57,000	£0	£57,000
65	DHA	South-East	-	Downland	GN Leasehold	Miscellaneous	105	£75.32	£4,710,000	£4,710,000	£0	£4,710,000	£45,000	£45,000	£0	£45,000
66	DHA	South-East	-	Downland	Market Rented	Miscellaneous	5	£111.35	£280,000	£280,000	£0	£280,000	£56,000	£56,000	£0	£56,000
67	DHA	South-East	-	Downland	Shared Ownership	Shared Ownership	182	£19.04	£9,170,000	£9,170,000	£0	£9,170,000	£50,000	£50,000	£0	£50,000
68	DHA	South-East	-	Downland	Special Needs	Miscellaneous	231	£82.76	£12,654,000	£12,654,000	£0	£12,654,000	£55,000	£55,000	£0	£55,000
TOTAL OR WEIGHTED AVERAGE							29,777	£77	£1,242,529,000	£1,074,904,000	£340,393,000	£1,415,297,000	£42,000	£45,000	£58,000	£48,000

APPENDIX III

Summary of EUV-SH Assumptions

AFFINITY SUTTON - PRUDENTIAL TRUSTEE COMPANY LIMITED

SUMMARY OF EUV-SH VALUATION ASSUMPTIONS

12-Sep-08

							Units						Rent	Yr 1 EUV-SH Assumptions						Discount Rate	
Cashflow	Owner	Region	Town	Estate	Type of Housing	Category	Total	Assured**	Secure	House	Flats	Sheltered	Average pw	Overall Relet	Voids/ Bad Debts	Management	Major	Cyclical	Responsive	Income	Sales
1	WSHA	London	London	Bethnal Green	General Needs	General Needs	190	154	36	7	183	0	£78.28	5.0%	2%	£600	£525	£250	£425	5.25%	0.00%
2	WSHA	London	London	Islington	General Needs	General Needs	141	96	45	15	126	0	£87.34	4.7%	2%	£600	£525	£250	£425	5.25%	0.00%
3	WSHA	London	London	Kingston-Upon-Thames	General Needs	General Needs	147	146	1	109	38	0	£95.52	3.0%	2%	£525	£475	£250	£425	5.25%	0.00%
4	WSHA	London	London	St Quintin	General Needs	General Needs	500	334	166	0	500	0	£81.00	5.0%	2%	£625	£525	£250	£425	5.25%	0.00%
5	WSHA	South-East	Bedford	Bedford	General Needs	General Needs	59	59	0	1	58	0	£69.70	0.0%	2%	£575	£475	£250	£425	5.25%	0.00%
6	WSHA	South-East	Bedfordshire	Bedford Kempston	General Needs	General Needs	33	33	0	25	8	0	£82.92	0.0%	2%	£575	£475	£250	£425	5.25%	0.00%
7	WSHA	South-East	Chelmsford	Chelmsford	General Needs	General Needs	252	123	129	196	56	0	£66.62	3.3%	2%	£550	£500	£250	£425	5.25%	0.00%
8	WSHA	South-East	Hemel Hempstead	Hemel Hempstead Grovehill	General Needs	General Needs	225	134	91	132	93	0	£80.83	3.3%	2%	£575	£475	£250	£425	5.25%	0.00%
9	WSHA	South-East	Hitchin	Hitchin	General Needs	General Needs	49	49	0	45	4	0	£93.79	0.0%	2%	£575	£475	£250	£425	5.25%	0.00%
10	WSHA	South-East	Leatherhead	Leatherhead	General Needs	General Needs	25	21	4	25	0	0	£96.25	3.0%	2%	£525	£525	£250	£425	5.25%	0.00%
11	WSHA	South-East	Luton	Luton	General Needs	General Needs	117	61	56	77	32	8	£72.39	3.0%	2%	£575	£525	£250	£425	5.25%	0.00%
12	WSHA	South-East	Milton Keynes	Milton Keynes Old Charged	General Needs	General Needs	58	58	0	0	58	0	£73.18	0.0%	2%	£550	£475	£250	£425	5.25%	0.00%
13	WSHA	South-East	Milton Keynes	Milton Keynes New Charged	General Needs	General Needs	55	55	0	0	55	0	£68.46	0.0%	2%	£550	£475	£250	£425	5.25%	0.00%
14	WSHA	South-East	Stevenage	Stevenage	General Needs	General Needs	285	285	0	186	99	0	£87.17	0.0%	2%	£550	£475	£250	£425	5.25%	0.00%
15	WSHA	South-East	Stevenage	Stevenage	Shared Ownership	Shared Ownership	18	16	0	0	18	0	£38.14	0.0%	0%	£119	£0	£0	£0	5.00%	7.25%
16	WSHA	South-West	Plymouth	Barne Barton	General Needs	General Needs	227	227	0	0	227	0	£52.91	0.0%	2%	£450	£600	£250	£425	6.00%	0.00%
17	WSHA	South-West	Bristol	Bristol	General Needs	General Needs	223	132	91	161	20	42	£76.97	3.3%	2%	£575	£475	£250	£425	5.50%	0.00%
18	WSHA	South-West	Plymouth	Central Plymouth	General Needs	General Needs	43	40	3	0	43	0	£53.91	5.0%	3%	£575	£525	£250	£425	5.75%	0.00%
19	WSHA	South-West	Plymouth	Crownhill Plymouth	General Needs	General Needs	157	130	27	133	24	0	£49.09	3.2%	3%	£525	£525	£250	£425	5.75%	0.00%
20	WSHA	South-West	Exeter	Exeter	General Needs	General Needs	48	48	0	36	12	0	£68.31	0.0%	2%	£575	£525	£250	£425	5.50%	0.00%
21	WSHA	South-West	Plymouth	Ferndale Road Plymouth	General Needs	General Needs	101	61	40	101	0	0	£59.56	3.0%	2%	£525	£525	£250	£425	5.75%	0.00%
22	WSHA	South-West	Plymouth	Leigham	General Needs	General Needs	188	107	81	188	0	0	£62.22	3.0%	2%	£525	£525	£250	£425	5.75%	0.00%
23	WSHA	South-West	Plymouth	St Budeaux	General Needs	General Needs	384	240	144	282	102	0	£61.42	3.3%	2%	£625	£525	£250	£425	5.25%	0.00%
24	WSHA	Midlands	Stoke	Abbey Hulton	General Needs	General Needs	366	218	148	334	32	0	£55.18	3.1%	2%	£450	£600	£250	£425	6.00%	0.00%
25	WSHA	Midlands	Leicester	Leicester	General Needs	General Needs	253	134	119	233	20	0	£64.80	3.2%	2%	£500	£575	£250	£425	5.75%	0.00%
26	WSHA	Midlands	Nottingham	Nottingham	General Needs	General Needs	125	99	26	57	68	0	£57.20	3.7%	2%	£550	£525	£250	£425	6.00%	0.00%
27	WSHA	Midlands	Rugby	Rugby New Charge	General Needs	General Needs	386	222	164	326	60	0	£71.50	3.0%	2%	£475	£525	£250	£425	5.75%	0.00%
28	WSHA	Midlands	Rugby	Rugby	Shared Ownership	Shared Ownership	6	6	0	0	6	0	£44.01	0.0%	0%	£137	£0	£0	£0	5.50%	8.00%
29	WSHA	Midlands	Stafford	Stafford	General Needs	General Needs	154	154	0	138	16	0	£73.46	0.0%	2%	£625	£475	£250	£425	5.75%	0.00%
30	WSHA	Midlands	Tamworth	Tamworth	General Needs	General Needs	343	249	94	214	105	24	£62.19	3.3%	2%	£550	£525	£250	£425	5.75%	0.00%
31	WSHA	Midlands	Stoke	Trent Vale	General Needs	General Needs	317	161	156	291	0	26	£58.09	3.0%	2%	£500	£575	£250	£425	6.00%	0.00%
32	WSHA	Yorkshire	Bradford	Bradford Old Charged	General Needs	General Needs	379	296	83	232	147	0	£64.01	3.3%	4%	£450	£525	£250	£425	6.00%	0.00%
33	WSHA	Yorkshire	Bradford	Bradford New Charged	General Needs	General Needs	200	157	43	121	49	30	£55.63	3.9%	4%	£450	£525	£250	£425	6.00%	0.00%
34	WSHA	Yorkshire	Hull	Hull Old Charge	General Needs	General Needs	444	271	173	444	0	0	£58.40	3.0%	3%	£500	£525	£250	£425	6.00%	0.00%
35	WSHA	Yorkshire	Hull	Hull New Charge	General Needs	General Needs	32	20	12	32	0	0	£59.00	3.0%	3%	£500	£525	£250	£425	6.00%	0.00%
36	WSHA	Yorkshire	Hull	Hull Central	General Needs	General Needs	54	52	2	1	53	0	£51.20	5.0%	3%	£500	£525	£250	£425	6.00%	0.00%
37	WSHA	Yorkshire	Leeds	Leeds Killingbeck	General Needs	General Needs	231	120	111	204	27	0	£58.21	3.2%	2%	£525	£525	£250	£425	6.00%	0.00%
38	WSHA	Yorkshire	Leeds	Leeds Selby Road	General Needs	General Needs	304	242	62	229	75	0	£56.20	3.2%	3%	£525	£525	£250	£425	6.00%	0.00%
39	WSHA	Yorkshire	Sheffield	Sheffield	General Needs	General Needs	333	199	134	313	0	20	£64.61	3.2%	3%	£550	£525	£250	£425	6.00%	0.00%
40	WSHA	North-East	Newcastle	Barrack Road	General Needs	General Needs	138	108	30	9	96	33	£54.18	5.2%	4%	£600	£525	£250	£425	6.50%	0.00%
41	WSHA	North-East	Middlesbrough	Middlesbrough	General Needs	General Needs	498	382	116	387	65	46	£62.92	3.6%	3%	£475	£525	£250	£425	6.50%	0.00%
42	WSHA	North-East	Middlesbrough	Middlesbrough Central	General Needs	General Needs	148	135	13	0	148	0	£55.55	5.0%	4%	£500	£475	£250	£425	6.50%	0.00%
43	WSHA	North-East	Newcastle	South Shields Cleadon Old Ch	General Needs	General Needs	453	331	122	386	67	0	£60.56	3.1%	3%	£475	£525	£250	£425	6.50%	0.00%
44	WSHA	North-East	Newcastle	South Shields Cleadon New C	General Needs	General Needs	61	42	19	0	0	61	£54.29	8.0%	3%	£475	£525	£250	£425	6.50%	0.00%
45	WSHA	North-East	Newcastle	South Shields Tyne Dock	General Needs	General Needs	300	235	61	48	252	0	£54.72	4.0%	3%	£475	£575	£250	£425	6.50%	0.00%
46	WSHA	North-West	Bolton	Bolton Long Lane	General Needs	General Needs	218	161	57	218	0	0	£60.06	3.0%	3%	£500	£475	£250	£425	6.00%	0.00%
47	WSHA	North-West	Bolton	Bolton Platt Hill	General Needs	General Needs	356	234	122	208	148	0	£54.25	3.3%	3%	£500	£525	£250	£425	6.00%	0.00%
48	WSHA	North-West	Manchester	Manchester	General Needs	General Needs	401	266	135	329	19	53	£59.76	3.5%	5%	£525	£525	£250	£425	6.75%	0.00%
49	WSHA	North-West	Salford	Salford	General Needs	General Needs	157	101	56	121	36	0	£65.73	3.7%	0%	£525	£525	£250	£425	6.50%	0.00%
50	WSHA	North-West	Warrington	Warrington	General Needs	General Needs	475	333	142	335	140	0	£60.01	3.2%	2%	£525	£475	£250	£425	6.00%	0.00%
51	WSHA	North-West	Widnes	Widnes	General Needs	General Needs	81	72	9	65	0	16	£72.05	4.7%	2%	£525	£525	£250	£425	6.00%	0.00%
52	WSHA	Midlands	Birmingham	Birmingham	General Needs	General Needs	326	236	90	242	76	8	£63.94	3.4%	4%	£475	£525	£250	£425	6.00%	0.00%
53	WSHA	South-East	Chelmsford	Chelmsford	General Needs	General Needs	8	8	0	8	0	0	£91.83	0.0%	2%	£550	£500	£250	£425	5.25%	0.00%
54	WSHA	London	City of London	City of London	General Needs	General Needs	107	88	19	0	72	35	£80.03	5.5%	2%	£600	£525	£250	£425	5.25%	0.00%
55	WSHA	Midlands	Kidsgrove	Kidsgrove	General Needs	General Needs	81	44	37	57	24	0	£65.85	3.3%	2%	£500	£575	£250	£425	6.00%	0.00%
56	BHA	South-East	-	Broomleigh	General Needs	General Needs	8,111	7,888	223	3,295	4,810	0	£85.70	5.0%	3%	£525	£1,250	£375	£325	5.25%	0.00%
57	BHA	South-East	-	Broomleigh	Sheltered	Sheltered	953	593	360	241	712	0	£70.57	4.7%	3%	£525	£1,250	£350	£300	5.75%	0.00%
58	BHA	South-East	-	Broomleigh	High Rise Non PRC	General Needs	194	172	22	0	194	0	£70.83	5.0%	2%	£575	£475	£250	£425	5.50%	0.00%
59	BHA	South-East	-	Broomleigh	PRC Other	Miscellaneous	363	174	189	361	2	0	£59.52	4.0%	2%	£575	£475	£250	£425	5.50%	0.00%
60	BHA	South-East	-	Broomleigh	Keyworker Accommodation	Miscellaneous	325	325	0	0	86	239	£50.84	0.0%	3%	£450	£300	£175	£175	5.75%	0.00%
61	BHA	South-East	-	Broomleigh	Market Rented	Miscellaneous	109	109	0	7	102	0	£130.16	0.0%	3%	£500	£1,250	£350	£300	5.25%	0.00%
62	BHA	South-East	-	Broomleigh	Shared Ownership	Shared Ownership	185	185	0	0	185	0	£34.52	0.0%	0%	£88	£0	£0	£0	5.50%	8.25%
63	BHA	South-East	-	Broomleigh	Hanover Park	General Needs	154	154	0	0	0	154	£133.18	0.0%	4%	£350	£100	£200	£0	5.50%	0.00%
64	DHA	South-East	-	Downland	General Needs	General Needs	7,600	7,402	198	4,625	2,971	4	£86.40	6.2%	2%	£475	£475	£325	£350	5.25%	0.00%
65	DHA	South-East	-	Downland	GN Leasehold	Miscellaneous	105	97	8	29	76	0	£75.32	7.5%	2%	£475	£425	£325	£350	5.25%	0.00%
66	DHA	South-East	-	Downland	Market Rented	Miscellaneous	5	5	0	0	5	0	£111.35	0.0%	4%	£475	£575	£300	£325	7.50%	0.00%
67	DHA	South-East	-	Downland	Shared Ownership	Shared Ownership	182	182	0	0	182	0	£19.04	0.0%	0%	£145	£0	£0	£0	5.50%	8.00%
68	DHA	South-East	-	Downland	Special Needs	Miscellaneous	231	231	0	0	0	231	£82.76	0.0%	0%	£1,300	£0	£0	£0	5.50%	0.00%
TOTAL OR WEIGHTED AVERAGE							29,777	25,508	4,269	15,859	12,888	1,030	£77	5%	2%	£510	£720	£300	£360	5.5%	7.9%

TAXATION

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

A. Interest on the Bonds

1. Payment of interest on the Bonds

Payments of interest by the Issuer on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid by a company and, at the time the payment is made, the company which makes the payment reasonably believes that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Bondholder, HM Revenue & Customs can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Bondholders may wish to note that, in certain circumstances, HM Revenue & Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder, or who either pays amounts payable on the redemption of Bonds to or receives such amounts for the benefit of another person, although HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Bonds where such amounts are paid on or before 5 April 2009. Information so obtained may, in certain circumstances, be exchanged by HM Revenue &

Customs with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

2. *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

3. *Further United Kingdom Income Tax Issues*

Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable (and where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

B. United Kingdom Corporation Tax Payers

4. In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

5. *Taxation of Chargeable Gains*

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

6. *Taxation of Discount*

Notwithstanding paragraph 5 above, the Bonds will constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 Income Tax (Trading and Other Income) Act 2005. Therefore, any gain realised on redemption or transfer of the Bonds by a Bondholder who is within the charge to United Kingdom income tax in respect of the Bonds will generally be taxable as income but such Bondholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Bonds.

D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)

7. No United Kingdom stamp duty or SDRT is payable on the issue of the Bonds or on a transfer by delivery of the Bonds.

SUBSCRIPTION AND SALE

The Dealer has, in a subscription agreement (the **Subscription Agreement**) dated 12th September, 2008, agreed to subscribe or procure subscribers for the Bonds at the issue price of 100 per cent. of the principal amount of the Bonds, less a combined selling, management and underwriting commission of 0.185 per cent. of the principal amount of the Bonds. The Issuer will also reimburse the Dealer in respect of certain of its expenses, and has agreed to indemnify the Dealer against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Dealer has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Bonds, an offer or sale of Bonds within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Terms used above have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

The Dealer has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or the Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Bonds to the public** in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Canada

The Bonds will not be qualified for sale under the securities laws of any province or territory of Canada. The Dealer has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Bonds, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. The Dealer has also represented and agreed that it has not and will not distribute or deliver the Offering Circular, or any other offering material in connection with any offering of Bonds in Canada, other than in compliance with applicable securities laws.

General

The Dealer has agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes this Offering Circular and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor the Bond Trustee shall have any responsibility therefor.

None of the Issuer, the Bond Trustee and the Dealer represents that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The issue of Bonds has been duly authorised by a resolution of the Board of Directors of the Issuer dated 10th September, 2008.

Listing of Bonds

The admission of the Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that the official listing will be granted on or about 18th September, 2008 subject only to the issue of the Temporary Global Bond. Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the London Stock Exchange's regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be £2,725. The Group Borrower shall pay to the Issuer, *inter alia*, an amount equal to such expenses in accordance with Clause 19 (*Expenses*) of the Loan Agreement.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the constitutional documents of the Issuer, the Group Borrower and each of the Borrowers;

(b) the audited consolidated financial statements of the Group Parent in respect of the financial years ended 31st March, 2007 and 31st March, 2008, together with the audit reports prepared in connection therewith. The Group Parent currently prepares audited accounts on an annual basis;

(c) the most recently published audited annual financial statements (if any) of the Group Parent and the Issuer and the most recently published unaudited interim financial statements (if any) of the Group Parent and the Issuer, in each case together with any audit or review reports prepared in connection therewith. The Group Parent does not currently publish unaudited interim accounts;

(d) the Bond Trust Deed, the Agency Agreement, the Account Agreement, the Loan Agreement, the Security Trust Deed and the Security Agreements;

(e) the Valuation Report;

(f) a copy of this Offering Circular; and

(g) any future offering circulars, prospectuses, information memoranda and supplements to this Offering Circular and any other documents incorporated therein by reference.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0388249962 and the Common Code is 038824996.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no material adverse change in the financial position or prospects of the Issuer since its date of incorporation.

There has been no significant change in the financial or trading position of the Group Borrower or any of the Borrowers since 31st March, 2008 and there has been no material adverse change in the prospects of the Group Borrower or any of the Borrowers since 31st March, 2008.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or has in such period had a significant effect on its financial position or profitability.

Neither the Group Borrower nor any Borrower is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Offering Circular which may have or has in such period had a significant effect on the Group Borrower's or any of the Borrowers' financial position or profitability.

Auditors

The auditors of the Issuer are KPMG, LLP Chartered Accountants, Registered Auditor. As at the date of this Offering Circular no financial statements have been prepared in respect of the Issuer. The auditors of the Issuer have no material interest in the Issuer.

The auditors of the Group Parent are KPMG, LLP Chartered Accountants, Registered Auditor, who have audited the Group Parent's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31st March, 2007 and 31st March, 2008. The auditors of the Group Parent have no material interest in the Group Parent.

Valuers

The Valuation Report was prepared by Drivers Jonas of 85 King William Street, London EC4N 7BL, Registered Chartered Surveyors (the **Valuers**). The Valuation Report is included in this Offering Circular, in the form and context in which it is included, with the consent of the Valuers and the Valuers have authorised the contents of the section entitled "*Valuation Report*".

The Valuers have no material interest in the Issuer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the Bonds, other than as required pursuant to Condition 6.2 (*Information Covenants*).

Dealer transacting with the Issuer, the Group Borrower or the Borrowers

The Dealer and its affiliates may in the future engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer, the Group Borrower and/or any of the Borrowers and their affiliates in the ordinary course of business.

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London EC4R 0HH

PRINCIPAL PAYING AGENT

Royal Bank of Canada, London Branch
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London EC4V 4DE

ACCOUNT BANK

NatWest Bank plc
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London EC2M 4RB

DEALER

Royal Bank of Canada Europe Limited
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