

L1NSTONE CHINE MANAGEMENT CO LIMITED

**REPORT ON ELECTRICITY SLPPLY CHARGES 2002-3**

I have conducted a thorough review, on behalf of the Board of Directors, of all invoices received by the Company over the last two years and also the individual bills issued to owners by the Company.

It came to our attention that the bills for 2002/2003 had been charged incorrectly, as the law changed on 1 January 2003 as to how- electricity could be sold on by a company to individual users. Up to 31 December 2002, the company could charge for electricity at a fixed maximum rate per unit used. plus a standing charge on a daily basis based on the number of days the site was open. It had always been the Company's policy to collect the maximum allowed as this had two clear advantages: firstly, as the VAT rate on electricity is lower than it is on the Service Charge, it was a more efficient way of collecting funds, and secondly, it was the only way of collecting anything towards the costs of providing services from leaseholders.

From 1 January 2003, the only amounts that can be charged are the actual costs incurred by the Company. These are passed on to individual bungalow owners pro rata according to the volume of electricity used. The overall effect of this was that the Company had charged owners £7,759 more than it should have done. In addition, it faced a shortfall of nearly £12,000 in the budget for the current year. I also discovered that VAT had been incorrectly charged twice on all bills from the previous year. I consulted SEC and legally we have to refund any amounts over £5.00 that were overcharged. I checked through all of the accounts for 2001/2002 and found that there were 59 accounts that fell into this category, amounting to £432, as well as a few previous owners.

Overall, this meant that as at September 2004, the Company would have a shortfall on expected electricity income of some £20,000. The only thing that the Company can do to offset some of this charge is to make a reasonable administration charge. I again consulted SEC for advice as to what would be deemed a reasonable charge. I explained in detail the set-up of the Company and the work and cost involved with the electricity; ie the time spent reading meters, calculating the amount to be charged and the printing, postage and stationery costs. It was agreed that a charge of £10 per annum would be as much as we should reasonably charge from 2004 onwards, with a one-off charge of £25 per bungalow to cover the extra work involved in the changes in charging, and this would cover the work done on the last two years' accounts.

The Company will therefore charge a total of £35 to cover the three years to September 2004. This is the most that we have been advised that we should charge, and therefore the most we can collect from leaseholders. This will mean that almost everybody's electricity bill will be lower in September than they would have been as the removal of the standing charge, together with the calculated overpayments already made, are more than the new administration charge. For the Company, this will recover around £9.660 pounds, leaving us just over £10,000 short of our projected income.

The Board are hopeful that with a number of other savings that are currently being made as a result of a thorough review of all of our expenditure, combined with the fact that the accounts for this year are showing a profit for the first time for five years, we will be able to cover this shortfall without recourse to any increase in the Service Charge.

There is a danger that the same thing could happen with water at some time in the future, and this could have an effect on the Service Charge, but our current water charging policy is allowed under current legislation.

Brian Davis  
Director  
March 2004