

**MHA CARE GROUP
REPORT AND ACCOUNTS**

31 March 2006

**Charity Registered No. 1083994
Company Registered No. 4038631
Registered Social Landlord No. LH4300**



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COMPANIES HOUSE 21/09/2006

**BAKER TILLY
Chartered Accountants
Birmingham**

MHA CARE GROUP

ACCOUNTS

31 March 2006

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MHA CARE GROUP
OFFICERS AND ADVISORS

Patrons

The Rt Hon The Lord Archer of Sandwell QC (President)
Baroness Kathleen Richardson of Calow, OBE
Pam Rhodes
Baroness Emma Nicholson of Winterbourne MEP

BOARD

| | Born | Term of office | Committee memberships |
|----------------------------|-------------|-----------------------|---|
| Chair | | | |
| Brian Coldwell | 1932 | 2002 | MHA Care Group Board Succession Committee, Remuneration Committee, Audit Committee, |
| Other Board Members | | | |
| Olwen Baker | 1935 | 2000- Sept 2006 | Development Committee, Remuneration Committee |
| Anthea Cox | 1965 | 2003 - Sept 2005 | |
| Stephen Duckworth | 1939 | 2002 | Pensions Committee |
| Terry Gill | 1945 | 2001 | Audit Committee, MHA Group Board Succession Committee |
| David Hobbs | 1947 | Feb 2006 | |
| Shelagh Morgan | 1953 | Sept 2006 | |
| Rev Peter Mortlock | 1945 | 2000 | Remuneration Committee |
| Keith Salisbury | 1946 | 2004 | |
| Graham Smith | 1950 | 2001 | Development Committee |

Corporate

Management Team

| | Born | Joined | Position |
|---------------------|-------------|---------------|--|
| Roger Davies | 1959 | 1999 | Group Chief Executive |
| Rev Dr Keith Albans | 1956 | 2001 | Group Director - Chaplaincy & Spirituality |
| Carol Artis | 1953 | 2005 | Group Director - Operations (North/Midlands) |
| Jane Barker | 1961 | 1999 | Group Director - Strategic Partnerships |
| Paul Milner | 1964 | 2002 | Group Director - Finance |
| Steve Reynolds | 1951 | 1999 | Group Director - Operations (South) |
| Rosie Forrest | 1962 | Jul 2006 | Head of Human Resources |
| Anna Marshall-Day | 1972 | Jul 2006 | Group Company Secretary |

Company Secretary

Anna Marshall-Day

MHA CARE GROUP

OFFICERS AND ADVISORS (*continued*)

REGISTERED OFFICE

MHA Care Group
Epworth House
Stuart Street
DERBY
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Fax: (01332) 296925
Email: enquiries@mha.org.uk
Website: www.mha.org.uk

CHARITY REGISTERED NUMBER

1083994

REGISTERED SOCIAL LANDLORD NUMBER

LH4300

**COMPANY REGISTERED IN ENGLAND
AND WALES NUMBER**

4038631

PROFESSIONAL ADVISORS

Solicitors

Anthony Collins
134 Edmund Street
Birmingham
B2 2ES

Registered Auditor

Baker Tilly
City Plaza
Temple Row
Birmingham
B2 5AF

Bankers

HSBC
70 Pall Mall
London
SW1Y 5EZ

Investment advisors

Central Finance Board of the Methodist Church
9 Bonhill Street
London
EC2A 4PE

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2006

1 Structure, Governance and Management

Governing Document

MHA Care Group is a company limited by guarantee (Companies House No. 4038631), a registered Charity (Registered Charity No 1083994) and a Registered Social Landlord (Housing Corporation No. LH4300). It is governed by Memorandum and Articles of Association.

MHA Care Group is responsible for strategic direction, policy and the employment of the senior management team. *The relationship between the Group members is defined in an Independence Agreement.* Management Agreements have been established whereby services provided by the Group parent to the subsidiaries are clearly defined.

The Group was established in 2001 in order to provide a robust structure for the future development of services to older people.

Organisational Structure

The Board consists of up to 12 Board Members, a third of whom are Methodist Church appointments, a third of whom are independent nominations and a third of whom are representatives from the Group's subsidiary organisations.

The Board has the following committees:

- The Audit Committee advises the Board on all matters relating to the annual financial statements, external audit, risk management and internal controls.
- The Pensions Committee, which includes representatives of management and staff, advises the Board on the operation of the pension scheme.
- The Remuneration Committee determines, on behalf of the Board, the remuneration of the corporate management team.
- The Development Committee acts, under delegated authority from the Board, to approve expenditure on new developments and negotiated contracts.
- The Board Succession Committee ensures that a full complement of Board Members with a wide and relevant range of skills and experience service the Board.

The Group complies with the NHF Code of Governance, subject to the following:

- As an organisation concerned with older people, the Association does not consider it appropriate to apply an age limit for Board members.

Election and appointment of Board Members

The Church appointees are formally appointed by the Conference of the Methodist Church. The Independent nominees are appointed by the Board at its annual general meeting. The representatives of the Group's subsidiary Boards are appointed by the subsidiary Boards. The recruitment of new Board Members is through a process of advertisement, application and interviews.

Board Members may serve for a maximum period of 6 consecutive years, subject to re-election during that period. The Chair may serve for a maximum period of 9 years.

Members who served on the Board during the year are shown in the list of officers on page 1.

BOARD OF DIRECTORS' REPORT

31 March 2006

Induction and training of Board Members

New Board members receive full induction as set out in the Board Member Code of Conduct. A Board Member Reference Book is provided on appointment. This contains the constitutional documents along with policies and information relevant to the work of the Charity. In addition, all Board members are 'linked' with a local care home or housing scheme in order to get to know projects, residents, tenants, volunteers and staff and further develop understanding of the work of the organisation. Visits to local projects are also an annual feature of Board meetings. Training of all trustees is provided in accordance with requirements and as a result of annual performance appraisals.

The Board Members decide the strategic aims of the Charity. They do not undertake management tasks, though they hold to account those employed to perform management and executive functions. Decisions are taken in accordance with the instructions laid down in the Charity's Standing Orders and related policy documents.

Patrons

We would like to take this opportunity to thank our patrons. Their support is invaluable in raising the profile of the organisation and helping MHA to reach out to more older people in need. Opening new projects, supporting national events and backing major capital appeals generates essential charitable income and the time and contribution given by our patrons is greatly appreciated.

Connected Charities

MHA Care Group works closely with its two subsidiary charitable organisations:
Methodist Homes for the Aged
Methodist Homes Housing Association

Risk Management

The Board oversees strategic risk annually with additional operational risk assessment through delegation to the Audit Committee. Risk control is exercised appropriately by Executive Directors undertaking a formal half yearly review of strategic and operational risks for their respective areas.

2 Objectives and Activities

The Charity's objects are for the relief of elderly people and other adults in need, particularly (but not limited to) those with mental illness or physical/learning disabilities by providing:

- (i) care and support services; and/or
- (ii) accommodation; and/or
- (iii) any other provision (whether or not similar to the foregoing)

which may facilitate an improved quality of life in the United Kingdom or elsewhere.

MHA's Mission is to improve the quality of life for older people, inspired by Christian concern.

Our Values underpin all our work and strategy. We are a Christian-based charity, combining professional standards and management with the highest levels of care and support for older people.

Our main objectives for the coming year:

- to ensure the quality of services is maintained and enhanced;
- to develop our managers and staff to enhance their experience of working for MHA and enhance our service;
- to extend our services to more older people.

The strategies to achieve these objectives and the measures of success are:

- to upgrade some of our existing buildings to create a more attractive place to live, to time and budget;
- to build new Homes and Housing schemes to a high standard, to time and budget;

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2006

- to provide personal development opportunities for managers and staff; to seek direct feedback and reductions in staff turnover and absence rates;
- to continue to develop our person-centred service for older people and seek user satisfaction improvements;
- to ensure each Home/Scheme achieves quality and financial targets.

Significant activities

The significant Charitable activities undertaken are:

i. Residential, Dementia and Nursing Care Homes

24 hour person-centred care and support in specially designed accommodation, mostly with private en-suite bedrooms and spacious dining facilities, communal areas and gardens. Full and varied activity programmes, including shared worship, are made available to meet the needs of each individual.

ii. Sheltered Housing and Housing with Care

Purpose built apartments with individual kitchen, bathroom, bedroom and living areas for independence and privacy coupled with shared areas for activities, social events and friendship. The Manager organises cleaning and maintenance of the building and gardens and is also on hand to provide assistance, ensuring safety and security. Housing with Care offers the addition of 24 hour staffing to provide person-centred care and support to meet individual needs, including specialist dementia care.

iii. Supported Retirement Housing for Sale

All the advantages of Sheltered Housing, but available for purchase to individuals or couples who wish to own their home and benefit from support as required.

iv. Live at Home schemes

Companionship, outings and help with shopping, nourishing hot meals and social activities organised by staff supported by volunteers - all designed to help older people stay independent and supported in their own home and community.

v. Consultancy Services to other charitable organisations

MHA provides management expertise in the day-to-day running of care homes and housing, managing all operations on behalf of other organisations.

3 Achievements and Performance

MHA Care Group

MHA has had a very successful year, expanding its services significantly, improving standards and improving efficiency. Significant progress has been made towards MHA's long-term strategy to continue to provide high quality care homes, housing and support services and to extend provision to more vulnerable older people. MHA is now delivering services to 8,500 older people and those using our services reported the highest ever levels of satisfaction.

The key achievements during the year undertaken through the Group Subsidiaries are: -

Strategic Partnerships

- MHA's strategic partnership with ExtraCare Charitable Trust has resulted in our acquisition of a further eight nursing and dementia care homes providing person-centred care to an additional 374 older people.
- We now provide management services to a number of charitable and faith organisations, delivering expert advice and guidance to ensure quality service to more older people.

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2006

New Homes

- Waterside House, Wolverhampton is a dementia care home for 60 older people.
- Fitzwarren House, Swindon, our latest nursing and dementia care home was completed in May 2005.
- Construction work commenced on our care home in Aberystwyth, providing dementia and nursing care, in partnership with Ceredigion County Council.

Existing Homes

- Moorland House in Hathersage has been remodelled and refurbished and now offers an additional 20 nursing places to local older people.
- Work is progressing at Ty Gwyn in Penarth to provide additional single en-suite bedrooms, improve communal areas and replace heating, fire alarm and call systems.
- In Harrogate, a new care home is being built to replace the existing home to incorporate the latest design features for older people.

Housing with Care

- Bridge Court, Wolverhampton, is a pioneering housing with care scheme for individuals and couples providing 24 hour care. 12 people per day also come in from the local community to take part in activities and have a hot meal in the restaurant.
- We opened Stanton Lodge, Swindon, our housing with care scheme offering 14 apartments for sale to couples where one person is living with dementia. The scheme provides 24 hour specialist dementia care and includes the latest technology for safety and security.

Day Care and Resource Centre

- The Moira Low Day Care Centre is located inside Waterside House, Wolverhampton and operated in partnership with the local PCT. Trained nursing staff and other healthcare professionals cater for the complex mental health and social care needs of up to twenty people a day.

Improving End of Life Care

- As part of our work on spirituality, we are implementing "The Final Lap" in all our care homes. This training ensures that the sensitive and difficult issues of dying and death are faced openly and positively, with appropriate support, improving the later life experience of older people.

Employees

MHA Care Group employs the Corporate Management Team, senior managers and staff working in supporting functions such as Finance, IT, Property, HR and Fundraising. The Group is fortunate in employing so many managers and staff who share our values and provide an exceptional service to older people, and we are grateful for their contribution.

The Board establish the objectives of the Group Chief Executive and monitor achievement.

The Board and Corporate Management Team work closely together to establish the right policy and strategic framework for MHA's work. Performance objectives are established throughout the organisation and measured on a regular basis.

4 Financial Review

The Income and Expenditure account shows turnover for the year of £68.0m, a 30% increase on the previous financial year.

The net movement of funds of £8.0m is added to the total balances brought forward of £74.4m.

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2006

Key Indicators

| | 2006-07 Target £m | 2005/06 Actual £m | 2004/05 Actual £m | 2003/04 Actual £m | 2002/03 Actual £m |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total income | 75.2 | 68.0 | 52.1 | 46.7 | 37.6 |
| Operating costs | 64.5 | 60.5 | 45.7 | 41.2 | 35.6 |
| Net interest charges | 1.1 | 1.2 | 0.5 | 0.2 | 0.1 |
| Surplus for the year | 9.5 | 8.0 | 7.1 | 6.2 | 2.5 |
| Service users – Homes | 2640 | 2500 | 2080 | 1900 | 1785 |
| - Housing | 1450 | 1300 | 1130 | 980 | 900 |
| - Community Services | 4600 | 4600 | 4500 | 4500 | 4500 |
| Occupancy – Charity | 97.6% | 96.6% | 96.5% | 94.4% | 95.4% |
| - Housing Association | 99.3% | 99.3% | 99.3% | 99.0% | 98.9% |
| Service user satisfaction* | | | | | |
| Charity | 8.0 | 7.9 | 7.6 | 7.6 | |
| Housing Association | 8.9 | 8.8 | 9.0 | 9.0 | |
| Cost of fundraising to charitable income | 12.8% | 15.6% | 11.7% | 11.0% | 13.0% |

* Annually, we ask all service users to complete a satisfaction survey, rating all aspects of the housing, care and support MHA provides as 'very good', 'good', 'acceptable', 'poor' or 'very poor'. In numerical terms, we equate 'very good' as 10 out of 10 and 'very poor' as 0 out of 10. Service user satisfaction surveys were formally introduced in 2003/04.

Reserves policy

The Board of Directors have considered the level of reserves which should be maintained within the Group and this is reviewed annually. Such reserves are needed to cover, for example, working capital, the risk of possible shortfalls in charitable income and other contingencies. The Board considers that minimum reserves of cash and investments of approximately £5m are needed to cover such items, and to enable the Group to continue to operate to meet its charitable objectives.

The level of free reserves, excluding long-term loans (which have been taken out to finance the development programme), restricted and designated funds and those invested in fixed assets are £8.7m (2005 £7.6m). The excess reserves are earmarked for future service development.

Investment policy

This policy covering investment objectives is reviewed half-yearly and has been drawn up with assistance from our investment advisors, the Central Finance Board of the Methodist Church (CFB), to cover the different types of funds held, as follows:

- General funds target to provide working capital in line with the reserves policy by investing 45%-55% in cash (actual 80%), 24-45% in equities (actual 20%) and 5%-25% fixed interest securities (actual 0%).
- Restricted funds target (excluding Live at Home and Amenity Funds) investing 50%-75% in equities (actual 63%), 25%-50% in fixed interest securities (actual 36%) and 0%-10% in cash (actual 1%).
- Permanent endowment funds target investing 100% (actual 64%) in fixed interest securities excluding a minimum cash balance of £100,000 (actual 36%).

The investments have been traded during the year, on the advice of the investment manager to comply with the Ethical Fundraising policy and the strong policies of the CFB on ethical investments, in order to move towards the agreed objectives.

BOARD OF DIRECTORS' REPORT

31 March 2006

The equity investments increased in value between 17.0% and 20.7% against FTSE All Share index of 22.0%. The fixed interest investments increased in value between 5.9% and 7.6% against FTSE Short Fixed Interest Composite Index of 6.0%.

Principal funding sources

MHA has arranged a loan facility with the Allied Irish Bank to draw up to £31m and Methodist Homes Housing Association has arranged a loan facility with the Cheshire Building Society to draw up to £5m. During the year a total of £20m was drawn to finance Fixed assets additions of £20.8m, the balance of expenditure being met from reserves. This expenditure enables us to redevelop existing properties to meet new standards as well as to build new ones.

5 Future developments

MHA Care Group will review and develop its services in the following respects:

- Provision of Management services – ensuring value for money and quality of service, to charitable organisations to whom we currently provide services, as well as extending the delivery of service to other organisations with similar values and ethos.
- Well-Being – exploring new ways to promote well-being and fulfilment, providing opportunities and choice for older people to pursue their interests.
- Dementia – developing our person-centred approach in different models of care, applying our own knowledge and experience plus the latest findings and technological developments in the sector.
- End of Life - *developing our service for older people as they near the end of their life and bringing together our thinking on spirituality with our care service.*
- Design - ensuring our Care Homes and Housing Schemes are well designed and maintained to *provide an attractive environment in which older people want to live.*
- Quality Assurance – enhancing our systems so that we can ensure our services are delivered to a consistently high standard and demonstrate this to regulators and older people
- Catering – bringing hospitality sector best practice to all of our services and ensuring it is delivered consistently
- Staff - ensuring managers and staff who have the right skills, experience, attitude and motivation to ensure our high standards are maintained 24 hours per day, 7 days per week.

The spread and range of services provided will be widened through the following planned developments:

- Aberystwyth a new 90 place dementia and nursing care home due to complete Spring 2007
- Ipswich addition of a new dementia wing incorporating 6 places due to complete Winter 2006
- Hitchin Re-provision of existing home due to complete Spring 2007 to include 20 apartments offering housing with care
- Harrogate Re-provision of existing home due to complete Spring 2007
- Bradford 46 apartment Housing with care scheme of mixed tenure, with day centre and enhanced assistive technology.
- Burraton 22 supported retirement housing for sale apartments due to complete Winter 2007
- Seamills 24 supported retirement housing for sale apartments due to complete Winter 2007
- Bristol 12 supported retirement housing for sale apartments due to complete Winter 2007
- Exning A community care service in a scheme owned by Hereward Housing Association

MHA CARE GROUP
BOARD OF DIRECTORS' REPORT

31 March 2006

Statement as to Disclosure of Information to Auditors

The directors who were in office on the date of approval of these statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Auditors

At the Annual General Meeting in September 2005 Baker Tilly were appointed as auditors of the Company. A resolution to re-appoint Baker Tilly will be proposed at the 2006 Annual General Meeting.

The report of the board was approved on 6 September 2006 and signed on its behalf by:



BRIAN COLDWELL

Epworth House
Stuart Street
Derby
DE1 2EQ

MHA CARE GROUP

STATEMENT OF THE BOARD'S RESPONSIBILITIES

31 March 2006

Financial statements

We are required under Companies Act and Housing Association legislation to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the income and expenditure of the Group for the year ended on that date.

In preparing these financial statements we are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether applicable accounting standards and statements of recommended practice have been followed, and give details of any departures; and
- prepare the financial statements on a going concern basis unless in our view the Group will be unable to continue in operation.

We are also responsible for:

- keeping proper accounting records;
- maintaining a satisfactory system of control over the accounting records and transactions;
- safeguarding the Group's assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Internal financial control assurance

The Board is responsible for the Group's systems of internal financial control. Such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

Following publication of the Housing Corporation circular R2-25/01 Internal Controls Assurance, the Board confirms there is an ongoing process for identifying, evaluating and managing significant risks to the achievement of the Group's strategic objectives. It has established the following key procedures, which are designed to provide effective internal financial control:

- **Control environment and procedures:** the Board has approved Standing Orders, which establish clear management responsibilities in relation to financial control and limits to management discretion. Financial processes are supervised by staff with appropriate experience and qualifications.
- **Risk management:** The Board has adopted Financial Strategies, which are designed to identify and control significant risks facing the organisation. All significant initiatives and capital investments are subject to formal authorisation procedures.
- **Management information:** The Board approves annually a rolling Three Year Plan, which incorporates an Annual Budget, and receives regular financial and management reports which identify variances from budget and key financial indicators.
- **Monitoring systems:** The Board has an Audit Committee, which reviews reports from management, external auditors and internal auditors to provide reasonable assurance that control procedures are in place and being followed. The Committee makes regular reports to the Board.

The Board has reviewed the effectiveness of the system of internal financial control for the year ended 31 March 2006 and until 6 September 2006. No weaknesses were found which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report of those financial statements.

MHA CARE GROUP

Independent auditor's report to the members of MHA Care Group

We have audited the financial statements on pages 12 to 36.

This report is made solely to the Company's members, as a body, in accordance with relevant legislation. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Boards' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006 and whether the information given in the Board of Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Board of Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with 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 Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

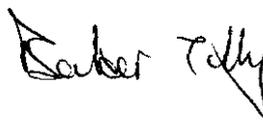
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the affairs of the Company and of the Group as at 31 March 2006 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006; and
- the information given in the Board of Directors' Report is consistent with the financial statements.

Birmingham
6 September 2006



BAKER TILLY
Registered Auditor
Chartered Accountants

MHA CARE GROUP

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2006

| | | 2006 £'000 | As restated 2005 £'000 |
|--|----|---------------------|------------------------------|
| Turnover | 2 | 67,980 | 52,119 |
| Less: Operating costs | 2 | <u>(60,537)</u> | <u>(45,718)</u> |
| Operating surplus | 6 | 7,443 | 6,401 |
| Surplus on disposal of property assets | | 1,154 | 763 |
| Surplus on disposal of current asset investments | | - | 23 |
| Investment income | | 536 | 452 |
| Interest payable and similar charges | 7 | <u>(1,173)</u> | <u>(527)</u> |
| Surplus for the year | 17 | 7,960 | 7,112 |
| Transfer of funds | 19 | <u>-</u> | <u>153</u> |
| Surplus recognised for the year | | <u><u>7,960</u></u> | <u><u>7,265</u></u> |

The 2005 figures have been restated on pages 12, 13 and 15 to incorporate the provisions of FRS 17, Retirement Benefits, as shown in note 21.

MHA CARE GROUP

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED SURPLUSES
AND DEFICITS

For the year ended 31 March 2006

| | 2006 £'000 | As restated 2005 £'000 |
|---|---------------|------------------------------|
| Surplus for the year | 7,960 | 7,265 |
| Increase in valuation of investment property | 70 | - |
| Increase in market value of investments | 374 | 190 |
| Actuarial loss on pension scheme | (1,699) | (529) |
| | <hr/> | <hr/> |
| Total recognised surpluses and deficits relating to the year | 6,705 | 6,926 |
| | <hr/> | <hr/> |
| Prior year adjustment (note 21) | (6,550) | |
| | <hr/> | |
| Total surpluses and losses recognised since last annual report | 155 | |
| | <hr/> | |

MHA CARE GROUP
PARENT COMPANY BALANCE SHEET

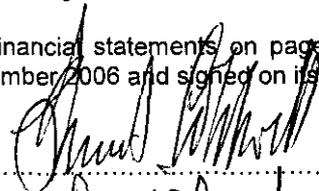
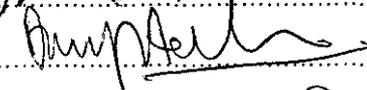
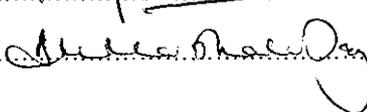
31 March 2006

| | | 2006 | | 2005 | |
|--|-------|-------|-------|-------|-------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Current assets | | | | | |
| Debtors | 11 | 475 | | 224 | |
| Cash at bank | | 370 | | 471 | |
| | | 845 | | 695 | |
| Current liabilities | | | | | |
| Creditors: amounts falling due within one year | 13 | (444) | | (456) | |
| | | | | | |
| Net current assets | | | 401 | | 239 |
| Total assets less current liabilities | | | 401 | | 239 |
| Capital and reserves | | | | | |
| Revenue reserves | 16 | | 401 | | 239 |

The above relates to MHA Care Group's own balance sheet and not that of its subsidiary companies.

The 2005 figures have been amended as shown in note 16.

The financial statements on pages 12 to 36 were approved by the Board and authorised for issue on 6 September 2006 and signed on its behalf by:

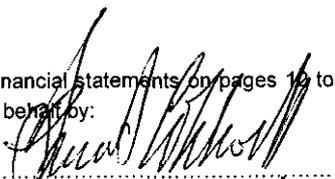
..... (Board Member)

 (Board Member)

 (Secretary)


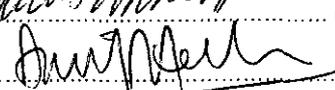
MHA CARE GROUP
CONSOLIDATED BALANCE SHEET

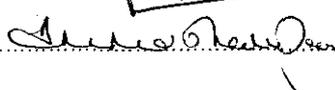
31 March 2006

| | Notes | Group 2006 £'000 | £'000 | Group - As restated 2005 £'000 | £'000 |
|--|-------|------------------------|---------|--------------------------------------|---------|
| Fixed assets | | | | | |
| Tangible fixed assets | | | | | |
| Housing properties: | | | | | |
| Gross cost | 8 | 135,423 | | 115,463 | |
| Less: Social Housing Grants | 8 | (27,319) | | (25,980) | |
| Other Grants | 8 | (6,553) | | (5,638) | |
| Depreciation | 8 | (7,397) | | (5,365) | |
| | | 94,154 | | 78,480 | |
| Other | 8 | 6,032 | | 5,500 | |
| | | | 100,186 | | 83,980 |
| Investment properties | 10 | | 440 | | 370 |
| | | | 100,626 | | 84,350 |
| Current assets | | | | | |
| Retirement housing stock | | 4,276 | | 3,383 | |
| Debtors | 11 | 3,533 | | 1,341 | |
| Investments | 12 | 3,032 | | 2,848 | |
| Cash at bank | | 7,235 | | 7,764 | |
| | | 18,076 | | 15,336 | |
| Creditors: amounts falling due within one year | 13 | (5,562) | | (3,997) | |
| Net current assets | | | 12,514 | | 11,339 |
| Total assets less current liabilities | | | 113,140 | | 95,689 |
| Pension liability | 20 | | (8,031) | | (6,550) |
| Total assets less current liabilities including pension liability | | | 105,109 | | 89,139 |
| Creditors: amounts falling due after more than one year | 14 | | 24,000 | | 14,735 |
| Capital and reserves | | | | | |
| Revaluation reserve | 17 | 1,001 | | 612 | |
| Endowment reserve | 17 | 694 | | 695 | |
| Restricted reserve | 17 | 14,759 | | 14,083 | |
| Revenue reserves | 17 | 64,655 | | 59,014 | |
| | | | 81,109 | | 74,404 |
| | | | 105,109 | | 89,139 |
| | | | 105,109 | | 89,139 |

The financial statements on pages 14 to 36 were approved by the Board and authorised for issue on 6 September 2006 and signed on its behalf by:

 (Board Member)

 (Board Member)

 (Secretary)

MHA CARE GROUP

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

| | Notes | 2006 | | 2005 | |
|---|-------|----------|----------|----------|----------|
| | | £'000 | £'000 | £'000 | £'000 |
| Net cash inflow from operating activities | 22(a) | | 9,391 | | 9,172 |
| Returns on investments and servicing of finance | | | | | |
| Investment income | | 536 | | 452 | |
| Interest paid | | (1,118) | | (666) | |
| | | | (582) | | (214) |
| Capital expenditure | | | | | |
| Payments to acquire and construct housing properties | | (19,960) | | (18,460) | |
| Purchase of other fixed assets | | (812) | | (524) | |
| Social Housing and other grants received | | 2,254 | | 3,559 | |
| Receipts on disposal of housing properties | | - | | 521 | |
| | | | (18,518) | | (14,904) |
| Net cash flow before use of liquid resources and financing | | | (9,709) | | (5,946) |
| Management of liquid resource | | | | | |
| Payments to acquire investments | | (78) | | (50) | |
| Proceeds from sale of investments | | 268 | | 231 | |
| | | | 190 | | 181 |
| Financing | | | | | |
| Loans received | | 10,000 | | 6,900 | |
| Loans repaid | | (1,010) | | (11) | |
| | | | 8,990 | | 6,889 |
| (Decrease)/increase in cash | 22(c) | | (529) | | 1,124 |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

1 Principal accounting policies

Introduction and accounting basis

The financial statements of the Group are prepared under the historical cost accounting rules, with the exception of investments which are shown at market value, and in accordance with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006, applicable financial reporting standards and the Statement of Recommended Practice (SORP): *Accounting by Registered Social Landlords*.

Investment properties are accounted for in accordance with SSAP 19, "Accounting for Investment Properties", which provides that these should not be subject to periodic depreciation charges (unless held on lease), but should be shown at open market value. This is contrary to the Companies Act 1985 which states that, subject to any provision for depreciation or diminution in value, fixed assets are normally to be stated at purchase price or production cost. Current cost accounting or the revaluation of specific assets to market value, as determined at the date of their last valuation, is also permitted.

The treatment of investment properties under the Companies Act does not give a true and fair view as these assets are not held for consumption in the business but as investments, the disposal of which would not materially affect any manufacturing or trading operations of the enterprise. In such a case it is the current value of these investments, and changes in that current value, which are of prime importance. Consequently, for the proper appreciation of the financial position, the accounting treatment required by SSAP 19 is considered appropriate for investment properties.

Details of the current value and historical cost information for investment properties are given in note 10.

Basis of consolidation

The Group financial statements consolidate the financial statements of MHA Care Group and its subsidiary undertakings. Intra-group profits are eliminated on consolidation. Surpluses and deficits of companies entering or leaving the Group are included from the date of acquisition or up to the date of disposal. The net assets of subsidiaries acquired are included on the basis of their fair value at the date of acquisition being the date at which control passes.

Turnover

Turnover represents the Group's rental and service charge income, donations, fees and certain revenue grants. All income is recognised on a receivable basis.

Donations, legacies and other voluntary income

Donations, legacies and other voluntary income are included in income when the Group is certain of receipt.

Supported retirement housing

Income and expenditure represents amounts relating to individual units sold during the year on a long-term lease. Unsold units and work in progress at the year end are treated as stock and are therefore valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal.

Operating costs

Overheads relating to housing developments are capitalised and excluded from operating costs.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

1 Principal accounting policies (continued)

Apportionment of management expenditure

All Head Office staff are employed by MHA Care Group. Costs are shared on the basis of the proportion of time spent by each member of staff on work associated with each subsidiary. The Head Office premises are jointly occupied and office services are shared.

Costs which cannot be directly and wholly attributed to one organisation are shared pro rata to salary costs.

Within the financial statements of the Group, management expenses are allocated, again on the basis of the time spent, to four separate items:

- i) Development
- ii) Management
- iii) Services
- iv) Maintenance

Tangible fixed assets and depreciation

Housing properties, including properties under construction, are stated at cost less applicable Social Housing Grants and other grants.

The cost of housing property includes applicable overhead expenditure and capitalised interest. Interest on loans deemed to be financing a development is capitalised up to the date of practical completion of a housing scheme.

Housing properties in the course of development are stated at cost and are transferred into housing properties when completed.

Fixed assets with a cost of more than £10,000 are capitalised and depreciated. Improvements which enhance the future economic benefits of the property or extends its overall useful life are capitalised and are fully written off over the expected useful life of the property.

Land is stated at cost and is not depreciated.

Freehold and long leasehold buildings are depreciated over their expected useful life of forty years, or the life of the lease if shorter, on a straight-line basis.

Computer equipment and motor vehicles are depreciated over three to five years except for minibuses financed from restricted funds, which are written off in the year of purchase.

Social Housing Grants

Where housing developments have been financed wholly or partly by Social Housing Grants or other grants, the cost of these developments has been reduced by the amount of the grant received. Grants received in excess of the costs to date of schemes in the course of development are shown as current liabilities. Capital grants conditional on the occurrence of specific events are recognised when those events have occurred.

Social Housing Grants are repayable under certain circumstances, primarily following sale of a property. Where property is charged, Social Housing Grant normally ranks as subordinated unsecured debt.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

1 Principal accounting policies (continued)

Investments

Investments in securities are shown in the financial statements at their market value at the balance sheet date.

Revaluation reserve

This reserve represents the unrealised surpluses arising from the revaluation of investments.

Pensions: Defined benefit schemes

As detailed in note 20 the accounting for retirement benefits has changed during the year to comply with the full disclosure requirements of FRS 17 "Retirement Benefits" which became effective for years ended on or after 31 December 2005. Previously the accounts were prepared under SSAP 24. The effects of the change in accounting policy are noted in note 21. To comply with FRS 17, for defined benefit schemes the amount charged to the Income and Expenditure Account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost and expected return on assets are included within other finance charges.

Actuarial gains and losses arising from updating to the balance sheet date are recognised in the Statement of Total Recognised Surpluses and Deficits.

The defined benefit schemes are funded, with the assets held separately from the Group in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reducing future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent the Group has a legal or constructive obligation to settle the liability.

Pensions: Defined contribution scheme

Contributions are charged to the Income and Expenditure Account as they become payable in accordance with the rules of the scheme.

Taxation

The Group has charitable status and is therefore not subject to Corporation Tax on its surplus.

The Group is registered for VAT. Most of the Group's income (rents and grants) is exempt for VAT purposes, which significantly restricts the recovery of VAT on expenditure.

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006
(continued)

| | Group | | | | | | | |
|--|---------------|---------------|-----------------|--------------------|---------------|---------------|-----------------|---------------------|
| | 2006 | | 2005 | | | | | |
| 2 Turnover, operating surplus and surplus before transfer of funds | Turnover | Cost of sales | Operating costs | Surplus/ (Deficit) | Turnover | Cost of sales | Operating costs | Surplus / (deficit) |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income and expenditure from services | | | | | | | | |
| Housing accommodation | 4,985 | - | 4,139 | 846 | 3,462 | - | 3,082 | 380 |
| Care homes | 57,598 | - | 52,409 | 5,189 | 39,803 | - | 38,014 | 1,789 |
| Health and social care | - | - | - | - | 600 | - | 775 | (175) |
| Live at Home | 1,260 | - | 2,263 | (1,003) | 1,370 | - | 2,210 | (840) |
| | <u>63,843</u> | <u>-</u> | <u>58,811</u> | <u>5,032</u> | <u>45,235</u> | <u>-</u> | <u>44,081</u> | <u>1,154</u> |
| Other income and expenditure | | | | | | | | |
| Charitable income | 3,973 | - | 679 | 3,294 | 6,690 | - | 841 | 5,849 |
| Other | 164 | - | 1,047 | (883) | 194 | - | 796 | (602) |
| | <u>67,980</u> | <u>-</u> | <u>60,537</u> | <u>7,443</u> | <u>52,119</u> | <u>-</u> | <u>45,718</u> | <u>6,401</u> |
| Operating Surplus | <u>67,980</u> | <u>-</u> | <u>60,537</u> | <u>7,443</u> | <u>52,119</u> | <u>-</u> | <u>45,718</u> | <u>6,401</u> |
| Sale of fixed assets | - | - | - | - | 521 | - | 377 | 144 |
| Retirement housing | 3,598 | 2,444 | - | 1,154 | 2,293 | 1,674 | - | 619 |
| | <u>71,578</u> | <u>2,444</u> | <u>60,537</u> | <u>8,597</u> | <u>54,933</u> | <u>1,674</u> | <u>46,095</u> | <u>7,164</u> |
| Surplus on disposal of investments | | | | (1) | | | | 23 |
| Investment income | | | | 537 | | | | 452 |
| Interest payable and similar charges | | | | (1,173) | | | | (527) |
| Surplus before transfers for the year | | | | <u>7,960</u> | | | | <u>7,112</u> |

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006
(continued)

| 3 Income and expenditure from services | Sheltered housing £'000 | Supported housing £'000 | Care homes £'000 | Live at Home £'000 | 2006 Total £'000 | 2005 Total £'000 |
|--|----------------------------|----------------------------|---------------------|-----------------------|------------------------|------------------------|
| Income from services | | | | | | |
| Rents receivable net of identifiable service charges | 2,046 | 463 | - | - | 2,509 | 2,048 |
| Service income | 1,064 | 276 | - | - | 1,340 | 958 |
| Charges for support services | 1,081 | 90 | - | - | 1,171 | 497 |
| Gross rents receivable | 4,191 | 829 | - | - | 5,020 | 3,503 |
| Less: Rent losses from voids | (33) | (2) | - | - | (35) | (41) |
| Net rents receivable | 4,158 | 827 | - | - | 4,985 | 3,462 |
| Other services income | - | - | 55,445 | 1,260 | 56,705 | 41,549 |
| Revenue grants from local authorities and other agencies | - | - | 2,153 | - | 2,153 | 224 |
| Total income from services | 4,158 | 827 | 57,598 | 1,260 | 63,843 | 45,235 |
| Expenditure from services | | | | | | |
| Management Services | 508 | 68 | 3,185 | 261 | 4,022 | 3,654 |
| Support services costs | 1,170 | 226 | - | - | 1,396 | 1,169 |
| Routine maintenance | 1,118 | 96 | 45,555 | 2,002 | 48,771 | 35,016 |
| Planned maintenance | 365 | 52 | 1,860 | - | 2,277 | 1,667 |
| Major repairs | 66 | - | 279 | - | 345 | 120 |
| Bad debts | 112 | 8 | 465 | - | 585 | 718 |
| Depreciation | 2 | - | 12 | - | 14 | 15 |
| | 269 | 79 | 1,053 | - | 1,401 | 1,722 |
| Total expenditure on services | 3,610 | 529 | 52,409 | 2,263 | 58,811 | 44,081 |
| Operating surplus/(deficit) on services | 548 | 298 | 5,189 | (1,003) | 5,032 | 1,154 |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

| 4 Staff | 2006 Number | 2005 Number |
|---|----------------|----------------|
| Average monthly number employed including the Group Chief Executive (Full-time equivalent) | | |
| Care homes | 2,030 | 1,566 |
| Sheltered housing | 93 | 52 |
| Live at Home | 70 | 72 |
| Office staff | 106 | 90 |
| | <u>2,299</u> | <u>1,780</u> |

No employees earned over £50,000 excluding pension contributions during the year (2005: £50,000)

| Group staffing costs including directors' emoluments | £'000 | £'000 |
|--|---------------|---------------|
| Wages and salaries | 38,184 | 28,627 |
| Social security costs | 2,525 | 1,662 |
| Other pension costs | 1,292 | 997 |
| | <u>42,001</u> | <u>31,286</u> |

5 Directors' emoluments

The directors of the company under housing association legislation comprise the Board members, the Group Chief Executive and senior members of the management team.

| | 2006 £'000 | 2005 £'000 |
|--|---------------|---------------|
| Directors' emoluments | | |
| Including pension contributions and benefits in kind | 305 | 323 |
| Highest paid director | | |
| Excluding pension contributions (Group Chief Executive) | <u>95</u> | <u>92</u> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

5 Directors' emoluments (continued)

Number of Directors to whom emoluments (including benefits in kind but excluding pension contributions) were paid during the year and whose emoluments fall within the following bands:

| | Number | Number |
|--|-------------|-------------|
| Nil | 9 | 10 |
| Between £10,001 and £20,000 | - | 1 |
| Between £20,001 and £30,000 | 1 | 1 |
| Between £50,001 and £60,000 | 3 | 2 |
| Between £60,001 and £70,000 | 1 | 1 |
| Between £90,001 and £100,000 | 1 | 1 |
| | <u>2006</u> | <u>2005</u> |
| | £'000 | £'000 |
| The Directors were reimbursed expenses not chargeable to United Kingdom Income Tax amounting to: | 6 | 6 |
| | <u>6</u> | <u>6</u> |

The Group Chief Executive is an ordinary member of the Group pension scheme (see note 20) and not subject to any enhanced or special terms nor does the Group make any contribution to an individual pension.

6 Operating surplus

| | 2006 | As restated 2005 |
|---|--------------|---------------------|
| | £'000 | £'000 |
| Stated after charging/(crediting): | | |
| Housing properties depreciation | 2,032 | 1,609 |
| Depreciation on other tangible fixed assets | 280 | 227 |
| External Auditors' remuneration (including VAT) | 33 | 26 |
| Internal Auditors' remuneration (including VAT) | 10 | 10 |
| | <u>2,355</u> | <u>1,872</u> |

7 Interest payable and similar charges

| | 2006 | As restated 2005 |
|--|--------------|---------------------|
| | £'000 | £'000 |
| On bank loans repayable wholly or partly in more than 5 years | 974 | 281 |
| On other loans repayable wholly or partly in more than 5 years | 155 | 174 |
| Other finance charges | 44 | 72 |
| | <u>1,173</u> | <u>527</u> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

8 Group tangible fixed assets

| Housing properties | Residential Care Homes | Housing Properties held for letting | Housing Properties under development | Total |
|--|---------------------------|--|---|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | |
| At 1 April 2005 | 68,098 | 43,456 | 3,909 | 115,463 |
| Additions | 17,190 | 1,524 | 1,280 | 19,994 |
| Reallocation | (1,865) | 2,230 | (365) | - |
| Transferred on completion | - | 3,902 | (3,902) | - |
| Transfer to stock of housing for resale | (34) | - | - | (34) |
| At 31 March 2006 | 83,389 | 51,112 | 922 | 135,423 |
| Social Housing & other Grants | | | | |
| At 1 April 2005 | - | 29,981 | 1,637 | 31,618 |
| Additions | - | 51 | 2,203 | 2,254 |
| Transferred on completion | - | 2,976 | (2,976) | - |
| At 31 March 2006 | - | 33,008 | 864 | 33,872 |
| Depreciation | | | | |
| At 1 April 2005 | 4,363 | 1,002 | - | 5,365 |
| Charge for year | 1,615 | 417 | - | 2,032 |
| Relocation | (74) | 74 | - | - |
| At 31 March 2006 | 5,904 | 1,493 | - | 7,397 |
| Net book value | | | | |
| At 31 March 2006 | 77,485 | 16,611 | 58 | 94,154 |
| At 1 April 2005 | 63,735 | 12,473 | 2,272 | 78,480 |

Additions to housing properties under development include capitalised interest of £16,000 (2005 £64,000) and development administration of £64,000 (2005 £90,000).

Housing properties comprise:

| | 2006 £'000 | 2005 £'000 |
|----------------|---------------|---------------|
| Freehold | 88,616 | 73,050 |
| Long leasehold | 5,538 | 5,430 |
| | 94,154 | 78,480 |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

8 Group tangible fixed assets (continued)

| Other | Freehold offices £'000 | Furniture equipment & vehicles £'000 | Total £'000 |
|-----------------------|------------------------------|---|----------------|
| Cost | | | |
| At 1 April 2005 | 1,966 | 4,416 | 6,382 |
| Additions | - | 812 | 812 |
| | ----- | ----- | ----- |
| At 31 March 2006 | 1,966 | 5,228 | 7,194 |
| | ----- | ----- | ----- |
| Depreciation | | | |
| At 1 April 2005 | 175 | 707 | 882 |
| Charge for the year | 48 | 232 | 280 |
| | ----- | ----- | ----- |
| At 31 March 2006 | 223 | 939 | 1,162 |
| | ----- | ----- | ----- |
| Net book value | | | |
| 31 March 2006 | 1,743 | 4,289 | 6,032 |
| | ===== | ===== | ===== |
| At 1 April 2005 | 1,791 | 3,709 | 5,500 |
| | ===== | ===== | ===== |

| | 2006 £'000 | Group 2005 £'000 |
|---|---------------|------------------------|
| 9 Capital commitments | | |
| Expenditure contracted, less certified | 19,575 | 15,508 |
| Expenditure authorised by the Board, but not contracted | 14,096 | 15,275 |
| | ----- | ----- |
| | 33,671 | 30,783 |
| | ===== | ===== |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

10 Investment properties

| | 2006 Group £'000 | 2005 Group £'000 |
|---|------------------------|------------------------|
| Freehold land and buildings – UK | | |
| Value at 1 April | 370 | 370 |
| Adjustment arising on revaluation | 70 | - |
| | <u>440</u> | <u>370</u> |
| Value at 31 March | <u>440</u> | <u>370</u> |
| Cost at 31 March | <u>295</u> | <u>295</u> |

Investment Properties were valued at 31 March 2006 by Pinders Professional & Consultancy Services Limited, Chartered Surveyors, on the basis of market value.

11 Debtors

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Arrears of rent and services | 2,197 | 1,070 | - | - |
| Grants receivable | 1,119 | - | - | - |
| Other debtors | 217 | 271 | 9 | 24 |
| Amounts due from subsidiary undertakings | - | - | 466 | 200 |
| | <u>3,533</u> | <u>1,341</u> | <u>475</u> | <u>224</u> |

12 Investments

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Methodist Church Central Finance Board: | | | | |
| Equity units | 2,072 | 1,942 | - | - |
| Fixed Interest units | 960 | 906 | - | - |
| | <u>3,032</u> | <u>2,848</u> | <u>-</u> | <u>-</u> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

13 Creditors: amounts falling due within one year

| | Group | | Company As restated | |
|---|---------------|---------------|------------------------|---------------|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Trade creditors | 1,501 | 1,067 | 279 | 184 |
| Advanced payment of rent and service charges | 412 | 398 | - | - |
| Taxation and social security | 767 | 445 | 80 | 60 |
| Accruals and deferred income | 1,045 | 1,315 | - | - |
| Social Housing Grant in advance of expenditure | 1,374 | - | - | - |
| Housing loans – interest | 25 | 21 | - | - |
| Housing loans – principal | 26 | 294 | - | - |
| Other creditors | 412 | 457 | 85 | 100 |
| Amounts due to subsidiary undertakings | - | - | - | 112 |
| | <u>5,562</u> | <u>3,997</u> | <u>444</u> | <u>456</u> |

14 Creditors: amounts falling due after more than one year

Loans from the Housing Corporation, Local Authorities, Banks and Building Societies are secured by specific charges on the Group's housing properties and are repayable at varying rates of interest in instalments due as follows:

| | Group | |
|----------------------------|---------------|---------------|
| | 2006 £'000 | 2005 £'000 |
| Between two and five years | 3,924 | 1,344 |
| In five years or more | 20,076 | 13,391 |
| | <u>24,000</u> | <u>14,735</u> |

15 Share capital

The company is limited by guarantee and has no share capital.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

| 16 Revenue reserve | Company £'000 |
|--|------------------|
| At 1 April 2005 – as previously restated | 351 |
| Prior year adjustment | (112) |
| | <hr/> |
| 1 April 2005 – as restated | 239 |
| Surplus for the year | 162 |
| | <hr/> |
| 31 March 2006 | 401 |
| | <hr/> <hr/> |

The prior year adjustment incorporates an amendment to the 31 March 2005 intercompany balances. There is no effect on the consolidated group accounts.

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

17 Group reserves

| | Revaluation Reserve £'000 | Endowment Reserve £'000 | Restricted Reserves £'000 | Revenue Reserve £'000 | Total £'000 |
|--|------------------------------|----------------------------|------------------------------|--------------------------------|----------------|
| | | HD Clarke Memorial Fund | Charitable Funds | Income and Expenditure Account | |
| At 1 April 2005 – as previously stated | 612 | 695 | 14,083 | 65,564 | 80,954 |
| Prior year adjustment (note 21) | - | - | - | (6,550) | (6,550) |
| At 1 April 2005 – as restated | 612 | 695 | 14,083 | 59,014 | 74,404 |
| Surplus for the year | - | - | 676 | 7,284 | 7,960 |
| Actuarial loss | - | - | - | (1,699) | (1,699) |
| Surplus/(deficit) on revaluation of assets | 445 | (1) | - | - | 444 |
| Disposal of revalued current asset investments | (56) | - | - | 56 | - |
| At 31 March 2006 | 1,001 | 694 | 14,759 | 64,655 | 81,109 |

The restricted reserves relate to amounts donated or raised for use on specific homes or schemes.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

18 Contingent liabilities

At 31 March 2006 and 31 March 2005 there were no known contingent liabilities.

19 Transfer of funds

In December 2004 a sheltered housing scheme owned by the Dr J Willcox Trust, Glastonbury was transferred to Methodist Homes for the Aged. In addition, cash reserves of £153,000 were also transferred.

20 Pensions and similar obligations

The Group operates four pension schemes, three defined benefit schemes and a defined contribution scheme, all administered by The Pensions Trust. The Pensions Advisory Committee advises the Board on the operation of the pension schemes.

- (i) A defined benefit scheme, which is a funded scheme, with the assets held in separate trustee administered funds.

The financial assumptions used to calculate the group's scheme liabilities under FRS 17, "Retirement Benefits", are as follows:

| | 2006 % pa | 2005 % pa | 2004 %pa |
|--|--------------|--------------|-------------|
| Inflation | 2.50 | 2.50 | 2.50 |
| Rate of increase in salaries | 4.00 | 4.50 | 4.50 |
| Rate of increase for pensions in payment | 2.25* | 2.50* | 2.50* |
| Rate of increase for deferred pensions | 2.50* | 2.50* | 2.50* |
| Discount rate | 4.90 | 5.40 | 5.50 |

* Pensions accrued before 1 January 2000 for members who joined the scheme before 1 November 1998 are subject to guaranteed fixed increases of 5% per annum in deferment and in payment.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

20 Pensions and similar obligations (continued)

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

| | 2006 | | 2005 | | 2004 | |
|--|---------------------|--|---------------------|--|---------------------|--|
| | Fair Value £'000 | Long-term rate of return expected % | Fair Value £'000 | Long-term rate of return expected % | Fair Value £'000 | Long-term rate of return expected % |
| Equities | 13,416 | 8.00 | 12,253 | 8.00 | 11,117 | 8.00 |
| Government bonds | 8,289 | 4.40 | 4,862 | 5.00 | 3,516 | 4.80 |
| Cash | 287 | 4.50 | 276 | 4.25 | 329 | 4.00 |
| Total market value of assets | 21,992 | 6.60 | 17,391 | 7.10 | 14,962 | 7.16 |
| Present value of scheme Liabilities | (30,023) | | (23,941) | | (20,895) | |
| Deficit in the scheme | (8,031) | | (6,550) | | (5,933) | |

The last formal valuation of the scheme was performed as at 30 September 2004 by a professionally qualified actuary. For the purpose of FRS 17, the valuation has been updated as at 31 March 2006.

The Group has contributed at the rate of 23.3% of pensionable salaries over the accounting period, including member's contributions of 6.4%. The actuary has confirmed that the existing contribution level can continue given the deficit which is forecast to be removed within 13 years.

Under the transitional arrangements of FRS 17, the Group's pension charge for the year calculated under FRS 17 assumptions is included in the financial statements.

Analysis of the amount charged to operating surplus

| | 31 March 2006 £'000 | 31 March 2005 £'000 |
|----------------------|---------------------------|---------------------------|
| Current service cost | 889 | 911 |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

20 Pensions and similar obligations (continued)

Analysis of the amount charged to other finance income

| | 31 March 2006 £'000 | 31 March 2005 £'000 |
|---|---------------------------|---------------------------|
| Expected return on pension scheme assets | 1,263 | 1,097 |
| Interest on pension scheme liabilities | (1,307) | (1,169) |
| | <hr/> | <hr/> |
| Other finance income charge to income and expenditure account | (44) | (72) |
| | <hr/> <hr/> | <hr/> <hr/> |

Analysis of amount recognised in the Statement of Recognised Surpluses and Deficits

| | 31 March 2006 £'000 | 31 March 2005 £'000 |
|---|---------------------------|---------------------------|
| Actuarial return less expected return on pension scheme assets | 2,561 | 615 |
| Experience gains and losses arising on the scheme liabilities | 111 | (368) |
| Changes in assumptions underlying the present value of the scheme liabilities | (4,371) | (776) |
| | <hr/> | <hr/> |
| Actuarial loss recognised in the Statement of Recognised Surpluses and Deficits | (1,699) | (529) |
| | <hr/> <hr/> | <hr/> <hr/> |

Movement in deficit during the year

| | £'000 | £'000 |
|-------------------------------|-------------|-------------|
| Deficit at 1 April | (6,550) | (5,933) |
| Current service cost | (889) | (911) |
| Contributions paid | 1,151 | 895 |
| Other finance charges | (44) | (72) |
| Actuarial (loss)/gain | (1,699) | (529) |
| | <hr/> | <hr/> |
| Deficit in scheme at 31 March | (8,031) | (6,550) |
| | <hr/> <hr/> | <hr/> <hr/> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

20 Pensions and similar obligations (continued)

History of experience gains and losses

| | 31 March 2006 £'000 | 31 March 2005 £'000 | 31 March 2004 £'000 | 31 March 2003 £'000 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Difference between the expected and actuarial return on scheme assets: | | | | |
| - Amount (£'000) | 2,561 | 615 | 1,790 | (3,712) |
| - % of scheme assets | 11.6 | 3.5 | 12.0 | (30.9) |
| Experience gains and losses on scheme liabilities: | | | | |
| - Amount (£'000) | 111 | (368) | 94 | 1,006 |
| - % of the present value of the scheme liabilities | 0.4 | (1.5) | 0.4 | 5.0 |
| Total amount recognised in the STRGL: | | | | |
| - Amount (£'000) | (1,699) | (529) | 2,271 | (4,405) |
| - % of the present value of the scheme liabilities | (5.7) | (2.2) | 10.9 | (22.0) |

- (ii) A Career Average Revalued Earnings ("CARE") defined benefit scheme, administered by The Pensions Trust which provides guaranteed benefits on earnings revalued by inflation. The Association currently contributes 10% to the scheme.
- (iii) A defined contribution scheme, administered by The Pensions Trust, which provides benefits based on the return earned by the investment. The Group contributes between 6% and 10% to the scheme.
- iv) Social Housing Pension Scheme (SHPS)

MHA participates as a contributing member of an industry-wide multi employer Social Housing Pension Scheme which is administered by the Pensions Trust. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent valuation for which information is available was in September 2002 which valued the scheme's assets at £650m. At this date the scheme had a total membership of 48,679. The valuation revealed a shortfall of assets compared with the value of liabilities of some £117m (equivalent to a past service funding level of 85%). The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The financial assumptions underlying the valuation at 30 September 2002 were as follows:

| | %p.a. |
|--|-------|
| - Rate of return on future contributions | 6.6 |
| - Rate of return on accumulated assets | 7.2 |
| - Rate of salary increase | 4.5 |
| - Rate of pension increase | 2.5 |
| - Rate of price inflation | 2.5 |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

20 Pensions and similar obligations (continued)

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

The charge to MHA for the year covered 61 (2005: nil) employees. The contribution rate of MHA for the year ended 31 March 2006 was 11.7% and for the employees at rates varying between 3.1% and 6.1% depending on their age. This scheme has been closed to new entrants.

MHA has subsequently been notified of the preliminary results of the triennial valuation carried out on 30 September 2005. This indicates an increase in the assets of the Scheme to £1,278 million and an increase in the shortfall of assets compared with liabilities to £283 million. This valuation, and any consequent alteration to future contribution rates, is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006, and any consequent changes to contribution rates applied from 1 April 2007.

The contribution by the Group to all pension schemes during the year amounted to £1,292,000 (2005 £997,000).

21 Prior year adjustment

The policy for the recognition of pension scheme liabilities was changed during the year, being the first year the group has been required to fully adopt FRS 17 "Retirement Benefits". Further details are provided in the accounting policies.

As a result of the above change in accounting policy, comparative figures have been restated to reflect the new policy. The effect of the change is as follows:

| | £'000 |
|--|----------------|
| Revenue Reserves at 1 April 2004: | |
| Impact of adopting FRS 17 | |
| Net pension liability at 1 April 2004 | (5,933) |
| | <hr/> |
| Impact on Revenue Reserves at 1 April 2004 | (5,933) |
| | <hr/> |
| Income and Expenditure Account for the year ended 31 March 2005: | |
| Impact of adopting FRS 17 | |
| Operating expenses | (911) |
| Interest payable and similar charges | (72) |
| Employer contributions | 895 |
| | <hr/> |
| Net reduction in surplus for the year | (88) |
| | <hr/> |
| Statement of Total Recognised Surpluses and Deficits for the year ended 31 March 2005: | |
| Impact of adopting FRS 17 | |
| Actuarial loss | (529) |
| | <hr/> |
| Total impact on Revenue Reserves at 31 March 2005 | <u>(6,550)</u> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

| 22 Notes to the cash flow statement | 2006 | As restated 2005 |
|---|-----------------|---------------------|
| a) Reconciliation of operating surplus to operating cash flows | £'000 | £'000 |
| Operating surplus | 7,443 | 6,401 |
| Profit from sale of retirement housing stock | 1,154 | 619 |
| Depreciation | 2,312 | 1,836 |
| Pension contributions paid in the year | (1,151) | (895) |
| Pension contributions charged in the year | 889 | 911 |
| Revaluation adjustment | - | (54) |
| Decrease/(increase) in retirement housing stock | (893) | 626 |
| Decrease/(increase) in debtors | (2,192) | 149 |
| (Decrease)/increase in creditors | 1,829 | (444) |
| Surplus on disposal of current asset investments | - | 23 |
| | <hr/> | <hr/> |
| Net cash inflow from operating activities | 9,391 | 9,172 |
| | <hr/> <hr/> | <hr/> <hr/> |
| <p>Movements in debtors and creditors which relate to capital and interest transactions are excluded from the movements in debtors and creditors shown.</p> | | |
| b) Reconciliation of net cash flow to movement in net debt | 2006 £'000 | 2005 £'000 |
| (Decrease)/increase in cash | (529) | 1,124 |
| Cash inflow from liquid resources | (190) | (181) |
| Cash inflow from increase in debt | (10,000) | (6,900) |
| Cash outflow from loan financing | 1,010 | 11 |
| | <hr/> | <hr/> |
| Change in net debt resulting from cash flows | (9,709) | (5,946) |
| Loan indexation | (7) | (9) |
| Decrease in market value of current asset investment | 374 | 214 |
| Net funds transfer (note 19) | - | 153 |
| | <hr/> | <hr/> |
| Movement in net (debt)/funds | (9,342) | (5,588) |
| Net (debt)/funds at 1 April | (4,417) | 1,171 |
| | <hr/> | <hr/> |
| Net debt at 31 March | (13,759) | (4,417) |
| | <hr/> <hr/> | <hr/> <hr/> |

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006
(continued)

22 Notes to the cash flow statement - continued

c) Analysis of changes in net debt

| | 1 April 2005 £'000 | Cash flow £'000 | Other changes £'000 | 31 March 2006 £'000 |
|-----------------------------------|--------------------------|--------------------|---------------------------|---------------------------|
| Cash at bank and in hand | 7,764 | (529) | - | 7,235 |
| Debt due within one year | | | | |
| Housing loans – principal | (294) | 10 | 258 | (26) |
| Debt due after more than one year | | | | |
| Housing loans – principal | (1,335) | - | (265) | (1,600) |
| Bank loan | (13,400) | (9,000) | - | (22,400) |
| Current asset investments | 2,848 | (190) | 374 | 3,032 |
| | <u>(4,417)</u> | <u>(9,709)</u> | <u>367</u> | <u>(13,759)</u> |

23 Group structure

MHA Care Group has the following subsidiary undertakings:

Methodist Homes Housing Association Limited

Incorporation: Industrial and Provident Societies Act 1965
Registered Number LH2343

Principal activity: Charitable provision and management of social housing.

Methodist Homes for the Aged

Incorporation: Charity Registered Number 1083995.

Principal activity: Charitable provision and management of residential care homes.