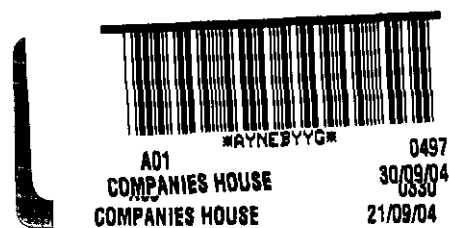


MHA CARE GROUP
REPORT AND ACCOUNTS

31 March 2004

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



BAKER TILLY
Chartered Accountants
Birmingham

MHA CARE GROUP

ACCOUNTS

31 March 2004

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MHA CARE GROUP
OFFICERS AND ADVISORS
31 March 2004

Patrons

The Rt Hon The Lord Archer of Sandwell QC (President)
 His Grace The Duke of Devonshire KG MC PC (until May 2004)
 Baroness Kathleen Richardson of Calow, OBE
 Pam Rhodes
 Jack J L Jones CH, MBE
 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	Development Committee, Remuneration Committee,
Anthea Cox	1965	Sept 2003	
Rev David Deeks	1942	1999 – July 2003	
Stephen Duckworth	1939	2002	Pensions Committee
Terry Gill	1945	2001	Audit Committee, MHA Group Board Succession Committee
Roy Higginson	1932	2000	Development Committee
Shelagh Morgan	1953	2000	MHA Care Group Board Succession Committee
Rev Peter Mortlock	1945	2000	Remuneration Committee, Development Committee
Trevor Peel	1951	2002	
Rowena Plant	1958	2002	
Noel Rajaratnam	1938	2000 – Sept 2004	Development Committee
Graham Smith	1950	2001	Development Committee

Corporate Management Team	Born	Joined	Position
Roger Davies	1959	1999	Chief Executive
Paul Milner	1964	2002	Business Support Director
Rachel Rees	1965	2002	Fundraising & Communications Director
Jane Barker	1961	1999	Group Director (North)
Steve Reynolds	1951	1999	Group Director (South)
Rev Dr Keith Albans	1956	2001	Chaplaincy & Spirituality Director
Richard Nicholls	1953	1998 – Oct 2003	Human Resources Director
John Jevons	1947	2000 – May 2003	Regional Director (South & West)

Company Secretary
 Anna Marshall-Day

MHA CARE GROUP
OFFICERS AND ADVISORS

31 March 2004

REGISTERED OFFICE

MHA Care Group
Epworth House
Stuart Street
DERBY
DE1 2EQ

Tel: (01332) 296200
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
St Phillips Gate
5 Waterloo Street
Birmingham
B2 5PG

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

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
4th Floor, Friendly House
52/58 Tabernacle Street
London
EC4A 4NJ

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2004

Status of Group

MHA Care Group is a company limited by guarantee, a registered Charity and a Registered Social Landlord. It is governed by Memorandum and Articles of Association.

The objects of the Group as recorded in the Memorandum and Articles of Association are:

The Group's objects shall be 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.

Review of the business

The surplus of the Group before transfer of funds for the year ended 31 March 2004 shown in the Consolidated Income and Expenditure account is £6.0m (2003: £2.5m).

The Group Balance Sheet shows fixed assets of £103.2m, capital grants from the Housing Corporation and Local Authorities of £22.8m, and £5m in charitable grants from Methodist Homes for the Aged.

The average number of days between receipt and payment of purchase invoices is 27 (2003: 27).

Throughout the Care sector the recruitment and retention of staff is not easy and the Group is no exception. We have reviewed pay and conditions within our Care Homes and hope that the recommendations made will lead to a marked improvement. Investment in training continues to have a high priority, particularly in meeting the requirement for 50% of Care Staff to have NVQ2 by 2007. Staff also undertake many other forms of training. The high standards of care within our Care Homes would not be possible without the skill and dedication of our staff and volunteers.

Methodist Homes for the Aged

This report covers the Diamond Jubilee year of Methodist Homes and indicates that along with record charitable income the year has been marked by a high level of activity both in fundraising and in the development of services. We continue to work with the Methodist Church at all levels, and believe that the many activities associated with the Diamond Jubilee year have helped with this. In addition we have sought to reach out to other denominations and have begun conversations with the Church of England.

Total charitable income reached £6.8m during the year, with more than half of this coming in the form of legacies. The Diamond Jubilee Forget-me-Not Appeal, aimed at supporting people living with dementia in their own homes, reached £155,000, far in excess of its original target of £100,000. One of the major fundraising events was a Charity Ball, held at Pride Park in Derby which was attended by many supporters of our work and raised £48,000. The climax of our Jubilee year came on Sunday 29th February. A 'Leap of Faith' Service was held at Central Hall Westminster, attended by well over 200 people. At the same time 'Leap of Faith' Services were held in more than 60 projects throughout England, Scotland and Wales.

Methodist Homes for the Aged is very grateful to all those who have so generously supported the work. This continued support enables Methodist Homes for the Aged to plan further developments to existing services and to plan new initiatives to provide services to a wider group of older people including those requiring financial support.

We continue to strive to serve more older people in ways that meet the needs of today and with an eye to the needs of tomorrow. We also look to share with others in shaping the environment for a better future for older people. Many of our residents are becoming increasingly dependent, frail and possibly have nursing needs or are living with dementia. In order to support older people we require a variety of approaches and a diversity of services. Consequently the development of new services and the updating of our existing ones continue to be a high priority.

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2004

Methodist Homes for the Aged (continued)

Following the successful redevelopment of the home at Wallington, Surrey, we are looking to do similar redevelopment at Hitchin, while in several places we continue to look for possible sites nearby on which to replace an existing home. Ty Gwyn in Penarth, Cardiff (50 places) was acquired in April 2003. Maple Leaf House in Ripley, Derbyshire (45 places) was opened in August 2003 and Charnwood House in Coventry (57 places) opened in May 2004, both are Dementia Care Homes and have been built in co-operation with Local Authorities and the Primary Care Trusts. Further Homes are under development at Swindon and Wolverhampton.

A development of Supported Retirement Housing for sale opened at Lincoln during the year and all 16 apartments have been sold. Further schemes are under development at Pimlico and Wallington.

Live at Home Schemes continue to support large numbers of older people, often with the direct support of the local church. However we have also begun to develop new forms of community services by bidding for commissions to run Home Care schemes for those living with dementia. We have been successful so far in securing contracts to work in Lincolnshire, Nottingham, Durham and Halton (near Runcom), and are hopeful of securing further contracts in the near future.

Developing the spiritual life of our homes continues to be an important and a distinctive part of our work. The part played by Chaplains and volunteers has been central to this throughout our history, but we are aware of several factors that might affect this in the future. In particular the increasing frailty of our residents makes it more difficult to develop a communal spiritual life, and makes different demands on Chaplains and volunteers. It is also becoming harder for some Circuits to release ministerial time to Chaplaincy in our Homes and Schemes and we are exploring a variety of alternative ways of meeting the need.

The income for the year ended 31 March 2004 included in the Consolidated Income and Expenditure account is £45.6m, a 25% increase on the previous financial year. Income from services to elderly people has grown by 25%, reflecting our continued expansion. The surplus for the year included in the Consolidated accounts is £5.7m (2003 £2.1m). The greater part of charitable income has been used to meet the capital costs of carrying out Methodist Homes for the Aged charitable objectives by providing new accommodation and improvements to existing buildings.

Methodist Homes Housing Association

At 31 March 2004 the Housing Association owned or managed 29 sheltered housing schemes consisting of 788 flats. The Association provides a range of quality accommodation for rent to enable older people to retain their privacy and independence in their own flat or bungalow, reassured by access to a variety of support services and emergency help if required.

Work was completed in October 2003 at Bradley Court in Kirklees, Huddersfield constructing 46 flats in partnership with Kirklees Council and Kirklees Black Elders. The scheme cost of £3.6m was partly financed by Housing Corporation grants of £2.7m.

Work commenced in September 2003 at a site in Moor Allerton in Leeds constructing 65 flats costing £6.2m with a grant allocation of £4.6m. This scheme will also provide extra care support to tenants and a new day care centre. Land was acquired during the year at Wolverhampton to provide a 40 flat extra care sheltered housing scheme costing £3.7m with a grant allocation of £3.0m, this is part of a larger project on the site working with Methodist Homes for the Aged who will be providing the care support services to tenants. A £5m loan facility has been agreed to help finance the new projects.

The surplus for the year ended 31 March 2004 included in the Consolidated Income and Expenditure account is £338,000 (2003 £279,000). Rent losses due to voids fell to 1.0% of rent (2003 1.1%).

MHA CARE GROUP
BOARD OF DIRECTORS' REPORT
31 March 2004

Changes in fixed assets

Details of fixed assets are shown in Note 8 and are recorded under the historical cost convention.

The group incurred capital expenditure of £15.7m (2003 £9.9m) on new homes and improvements. The expenditure was financed by grants of £4.9m (2003 £0.5m) received from the Housing Corporation, loans of £2.0m (2003 £4.5m) and the balance from the Group's own resources.

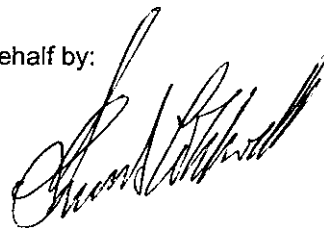
Post Balance Sheet events

On 1 July 2004 MHA Care Group entered into an agreement with The Royal Alfred Seafarers' Society for the provision of management services to their Home in Eastbourne and Home and Sheltered Scheme in Banstead, Surrey.

Auditors

At the Annual General Meeting in September 2003 Baker Tilly were appointed as auditors to the Group. A resolution to re-appoint Baker Tilly will be proposed at the 2004 Annual General Meeting.

The report of the Board was approved on 8 September 2004 and signed on its behalf by:



BRIAN COLDWELL
Chair

Epworth House
Stuart Street
Derby
DE1 2EQ

8 September 2004

MHA CARE GROUP

STATEMENT ON CORPORATE GOVERNANCE

31 March 2004

Board Structure

The Board consists of 12 Board Members, 4 of whom are Church appointments, 4 of whom are representatives of the group's subsidiary Boards, and 4 of whom are independent nominations.

The Church appointees are formally appointed by the Conference of the Methodist Church. The representatives of the Group's subsidiary Boards are appointed by the subsidiary Boards. The independent nominees are appointed by the Board at its annual general meeting. Unless co-opted, members of the Board must already be shareholders of the Association. Members of the public become shareholders at the discretion of the Board. The recruitment of new board members is through a process of advertisement, application and interview.

Board members may serve for a maximum period of 6 years, subject to re-election during that period.

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

Board elements

The Group is governed by the Board, which is elected in accordance with the Articles of Association and meets at least twice every year.

The Board has established the following committees:

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

CODE OF GOVERNANCE: In January 2000, the National Housing Federation (NHF) adopted a revised Code of Governance for the guidance of NHF members, so that they could continue to follow the highest standards of governance, accountability and probity, while responding to an environment of change and risk.

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.

MHA CARE GROUP

STATEMENT OF THE BOARD'S RESPONSIBILITIES

31 March 2004

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 2004 and until 8 September 2004. 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 and Subsidiaries

We have audited the financial statements of MHA Care Group and subsidiaries for the year ended 31 March 2004 which comprises the Consolidated Income and Expenditure Account, the Consolidated Statement of Recognised Surpluses and Deficits, the Consolidated Balance Sheet, the Parent Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 are set out in the Statement of the Boards' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 2000. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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 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.

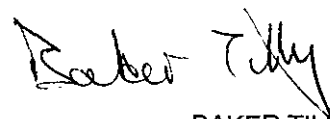
Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 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 of the state of affairs of the Association and the Group as at 31 March 2004 and of the surplus of the Association and 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 2000.


BAKER TILLY
Registered Auditor
Chartered Accountants

Birmingham
8 September 2004

MHA CARE GROUP
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Turnover	2	46,734	37,622
Less: Operating costs	2	(41,221)	(35,597)
		<hr/>	<hr/>
Operating surplus		5,513	2,025
Surplus on disposal of property assets		285	200
Surplus/(deficit) on disposal of current asset investments		80	(66)
Investment income		440	499
Interest payable and similar charges	7	(248)	(173)
		<hr/>	<hr/>
Surplus for the year before transfer of funds		6,070	2,485
Transfer of funds	19	139	-
		<hr/>	<hr/>
Surplus recognised for the year	16	6,209	2,485
		<hr/>	<hr/>

MHA CARE GROUP
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED SURPLUSES
AND DEFICITS

For the year ended 31 March 2004

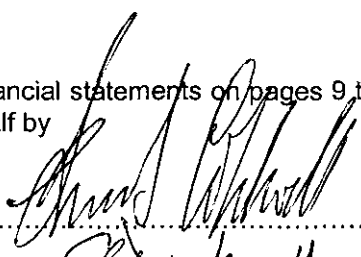
	2004 £'000	2003 £'000
Surplus for the year	6,209	2,485
Increase/(decrease) in market value of investments	401	(89)
	<hr/>	<hr/>
Total recognised surpluses for the year	<u>6,610</u>	<u>2,396</u>

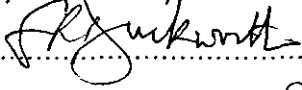
MHA CARE GROUP
PARENT COMPANY BALANCE SHEET

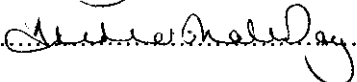
31 March 2004

	Notes	2004 £'000	£'000	2003 £'000	£'000
Current assets					
Debtors	10	166		17	
Cash at bank		357		576	
		<hr/>		<hr/>	
		523		593	
Current liabilities					
Creditors: amounts falling due within one year	12	(397)		(521)	
		<hr/>		<hr/>	
Net current assets			126		72
			<hr/>		<hr/>
Total assets less current liabilities			126		72
			<hr/>		<hr/>
Capital and reserves					
Revenue reserves	15		126		72
			<hr/>		<hr/>

The financial statements on pages 9 to 29 were approved by the Board on 8 September 2004 and signed on its behalf by


 (Board Member)


 (Board Member)


 (Secretary)

MHA CARE GROUP
CONSOLIDATED BALANCE SHEET

31 March 2004

		Group 2004		Group 2003	
Fixed assets	Notes	£'000	£'000	£'000	£'000
Tangible fixed assets					
Housing properties:					
Gross cost	8	97,948		82,688	
Less: Social Housing Grants	8	(22,821)		(17,880)	
Other Grants	8	(4,967)		(4,966)	
Depreciation	8	(3,756)		(2,223)	
		<u>66,404</u>		<u>57,619</u>	
Other	8	5,187		5,077	
			<u>71,591</u>		<u>62,696</u>
Investment - Properties	9		370		395
			<u>71,961</u>		<u>63,091</u>
Current assets					
Retirement housing stock		3,229		1,363	
Debtors	10	1,490		1,130	
Investments	11	2,815		2,919	
Cash at bank		6,487		7,937	
		<u>14,021</u>		<u>13,349</u>	
Current liabilities					
Creditors: amounts falling due within one year	12	(4,414)		(3,453)	
Net current assets			9,607		9,896
Total assets less current liabilities			<u>81,568</u>		<u>72,987</u>
Creditors: amounts falling due after more than one year	13		8,126		6,130
Capital and reserves					
Revaluation reserve	16	453		77	
Endowment reserve	16	695		736	
Restricted reserve	16	13,221		13,236	
Revenue reserves	16	59,073		52,808	
			<u>73,442</u>		<u>66,857</u>
			<u>81,568</u>		<u>72,987</u>

The financial statements on pages 9 to 29 were approved by the Board on 8 September 2004 and signed on its behalf by

..... (Board Member)

..... (Board Member)

..... (Secretary)

MHA CARE GROUP
CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	Notes	2004 £'000	£'000	2003 £'000	£'000
Net cash inflow from operating activities	21(a)		5,899		4,993
Returns on investments and servicing of finance					
Investment income		440		499	
Interest paid		(478)		(230)	
			(38)		269
Capital expenditure					
Payments to acquire and construct housing properties		(15,157)		(9,219)	
Purchase of other fixed assets		(306)		(129)	
Purchase of investment assets		(1)		-	
Social Housing and other grants received		5,213		539	
Receipts on disposal of housing properties		152		180	
Receipts from sale of investment properties		137		-	
			(9,962)		(8,629)
Net cash flow before use of liquid resources and financing			(4,101)		(3,367)
Management of liquid resource					
Payments to acquire investments		(1,263)		(517)	
Proceeds from sale of investments		1,822		1,197	
			559		680
Financing					
Loans received		2,500		4,500	
Loans repaid		(511)		(12)	
			1,989		4,488
(Decrease)/increase in cash	21(c)		(1,553)		1,801

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1 Principal accounting policies

Introduction and accounting basis

The financial statements of the Group are prepared under the historical cost accounting rules in accordance with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000, 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 9.

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. Surplus 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 of 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 2004
(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 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 or other grants, the cost of these developments has been reduced by the amounts 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 2004
(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.

Restricted reserve: Rent Surplus Fund retention

The Group transfers sums to a major repairs reserve equal to the amount required by the statutory Rent Surplus Fund calculation in respect of properties developed prior to the arrangements introduced by the Housing Act 1988. Sums are withdrawn from this reserve to the extent that major repairs expenditure in respect of these properties is not funded by grants.

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.

Pensions: Defined benefit scheme

Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working life with the company. The regular cost is attributed to the individual years using the projected unit method. Variations in cost which are identified as a result of actuarial valuations are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Pensions: Defined contribution scheme

Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004
(continued)

2 Turnover, operating surplus and surplus before transfer of funds

	Group 2004					Group 2003				
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus / (deficit) £'000		
Income and expenditure from services										
Housing accommodation	3,245	-	2,484	761	3,085	-	2,488	597		
Care homes	35,135	-	35,005	130	28,190	-	28,939	(749)		
Health and social care	289	-	457	(168)	-	-	-	-		
Live at Home	1,175	-	2,009	(834)	1,065	-	1,881	(816)		
	<u>39,844</u>	<u>-</u>	<u>39,955</u>	<u>(111)</u>	<u>32,340</u>	<u>-</u>	<u>33,308</u>	<u>(968)</u>		
Other income and expenditure										
Charitable income	6,769	-	745	6,024	5,215	-	677	4,538		
Other	121	-	521	(400)	67	-	1,612	(1,545)		
	<u>46,734</u>	<u>-</u>	<u>41,221</u>	<u>5,513</u>	<u>37,622</u>	<u>-</u>	<u>35,597</u>	<u>2,025</u>		
Operating Surplus										
Sale of fixed assets	152	-	72	80	180	-	98	82		
Sale of investment properties	137	-	52	85	-	-	-	-		
Retirement housing	897	777	-	120	685	567	-	118		
	<u>47,920</u>	<u>777</u>	<u>41,345</u>	<u>5,798</u>	<u>38,487</u>	<u>567</u>	<u>35,695</u>	<u>2,225</u>		
Surplus/(deficit) on disposal of investments										
Investment income				80				(66)		
Interest payable and similar charges				440				499		
				<u>(248)</u>				<u>(173)</u>		
Surplus before transfer for the year				<u>6,070</u>				<u>2,485</u>		
Average assured tenancy rent (including service charges eligible For Housing benefit) per week:				£73.44				£74.52		
Percentage increase/(decreases)				(1.5)%				(0.9)%		

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004
(continued)

3 Income and expenditure from services

	Sheltered housing £'000	Supported housing £'000	Care homes £'000	Health and social care £'000	Live at Home £'000	2004 Total £'000	2003 Total £'000
Income from services							
Rents receivable net of identifiable service charges	1,899	175	-	-	-	2,074	1,939
Service charges receivable							
- Eligible for Housing Benefit	655	120	-	-	-	775	1,146
- Not eligible for Housing Benefit	100	8	-	-	-	108	63
Supporting people grant	307	28	-	-	-	335	-
Gross rents receivable	2,961	331	-	-	-	3,292	3,148
Less: rents losses from voids	(45)	(2)	-	-	-	(47)	(63))
Net rents receivable	2,916	329	-	-	-	3,245	3,085
Other services income			35,135	33	1,175	36,343	29,025
Revenue grants from local authorities and other agencies	-	-	-	256	-	256	230
Total income from services	2,916	329	35,135	289	1,175	39,844	32,340
Expenditure from services							
Services	1,139	177	28,840	259	1,756	32,171	26,359
Management	548	37	3,133	198	253	4,169	3,915
Routine maintenance	132	12	1,379	-	-	1,523	1,169
Major repairs	236	17	341	-	-	594	549
Bad debts	3	-	20	-	-	23	13
Abortive development costs	-	-	-	-	-	-	41
Depreciation	152	31	1,292	-	-	1,475	1,262
Total expenditure on services	2,210	274	35,005	457	2,009	39,955	33,308
Operating (deficit)/surplus on services	706	55	130	(168)	(834)	(111)	(968)

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

4	Staff	2004	2003
		Number	Number
	Average monthly number employed including the Chief Executive (Full-time equivalent)		
	Care homes	1,517	1,370
	Sheltered housing	43	46
	Live at Home	60	68
	Office staff	87	100
		<hr/>	<hr/>
		1,707	1,584
		<hr/>	<hr/>
	Average monthly number employed (including the Chief Executive)	2,580	2,421
		<hr/>	<hr/>
	Group staffing costs including directors' emoluments	£'000	£'000
	Wages and salaries	25,578	21,526
	Social security costs	1,416	1,062
	Other pension costs	1,006	1,059
		<hr/>	<hr/>
		28,000	23,647
		<hr/>	<hr/>

5 Directors' emoluments

The directors of the company under housing association legislation comprise the Board members and the Chief Executive.

	2004	2003
	£'000	£'000
Directors' emoluments		
Including pension contributions and benefits in kind	97	93
	<hr/>	<hr/>
Highest paid director		
Excluding pension contributions (Chief Executive)	83	80
	<hr/>	<hr/>

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	14	15
Between £80,001 and £90,000	1	1
	<hr/>	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2004
(continued)**

5 Directors' emoluments (continued)

	2004 £'000	2003 £'000
The directors were reimbursed expenses not chargeable to United Kingdom Income Tax amounting to:	6	10

The 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 Association make any contribution to an individual pension.

6 Operating surplus

	2004 £'000	2003 £'000
Stated after charging:		
Housing properties depreciation	1,378	1,187
Depreciation on other tangible fixed assets	200	202
Auditors' remuneration in the capacity as auditors (including VAT)	25	26
Revaluation (surplus)/deficit on investments	(386)	902

7 Interest payable and similar charges

	2004 £'000	2003 £'000
On loans repayable wholly or partly in more than 5 years	248	173

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2004
(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 2003	50,875	30,772	1,041	82,688
Reallocated	106	49	-	155
Additions	8,334	1,749	5,317	15,400
Disposals	(72)	-	-	(72)
Transfer to apartments for resale	(223)	-	-	(223)
Transferred on completion	-	3,405	(3,405)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	59,020	35,975	2,953	97,948
	<hr/>	<hr/>	<hr/>	<hr/>
Social Housing & other Grants				
At 1 April 2003	-	22,307	539	22,846
Additions	-	-	4,942	4,942
Transferred on completion	-	2,654	(2,654)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	-	24,961	2,827	27,788
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2003	1,730	493	-	2,223
Reallocated	160	(4)	-	156
Charge for year	1,180	197	-	1,377
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	3,070	686	-	3,756
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2004	55,950	10,328	126	66,404
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2003	49,145	7,972	502	57,619
	<hr/>	<hr/>	<hr/>	<hr/>

Additions to housing properties under development including capitalised interest of £236,000 (2003 £Nil) and development administration of £85,000 (2003 £53,000).

Housing properties comprise:

	2004 £'000	2003 £'000
Freehold	59,021	52,085
Long leasehold	7,383	5,534
	<hr/>	<hr/>
	66,404	57,619
	<hr/>	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2004
(continued)**

8 Group tangible fixed assets (continued)

Other	Freehold offices £'000	Furniture equipment & vehicles £'000	Total £'000
Cost			
At 1 April 2003	1,966	3,567	5,533
Reallocation	-	3	3
Additions	-	306	306
	<hr/>	<hr/>	<hr/>
At 31 March 2004	1,966	3,876	5,842
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2003	87	369	456
Reallocation	-	2	2
Charge for the year	44	153	197
	<hr/>	<hr/>	<hr/>
At 31 March 2004	131	524	655
	<hr/>	<hr/>	<hr/>
Net book value			
31 March 2004	1,835	3,352	5,187
	<hr/>	<hr/>	<hr/>
At 1 April 2003	1,879	3,198	5,077
	<hr/>	<hr/>	<hr/>

9 Investment properties

	2004 Group £'000	2003 Group £'000
Freehold land and buildings – UK		
Value at 1 April	395	395
Additions	1	-
Adjustment arising on revaluation	26	-
Disposals	(52)	-
	<hr/>	<hr/>
Value at 31 March	370	395
	<hr/>	<hr/>
Cost at 31 March	295	344
	<hr/>	<hr/>

Investment Properties were valued at 31 March 2004 by Pinders Professional & Consultancy Services Limited, Chartered Surveyors, on the basis of market value.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2004
(continued)**

10 Debtors

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Arrears of rent and services	1,118	725	-	-
Other debtors	372	405	25	17
Amounts due from subsidiary undertakings	-	-	141	-
	<u>1,490</u>	<u>1,130</u>	<u>166</u>	<u>17</u>

11 Investments

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Methodist Church Central Finance Board:				
Equity units	1,957	2,080	-	-
Fixed Interest units	858	839	-	-
	<u>2,815</u>	<u>2,919</u>	<u>-</u>	<u>-</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade creditors	2,038	1,672	271	154
Prepayments of rent and service charges	340	395	-	-
Taxation and social security	375	321	59	58
Accruals and deferred income	1,016	640	-	-
Social Housing Grant in advance of expenditure	271	-	-	-
Housing loans – interest	12	13	-	-
Housing loans – principal	5	5	-	-
Amounts due to subsidiary undertakings	-	-	-	162
Other creditors	357	407	67	147
	<u>4,414</u>	<u>3,453</u>	<u>397</u>	<u>521</u>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

13 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	
	2004 £'000	2003 £'000
Between two and five years	697	366
In five years or more	7,429	5,764
	<hr/>	<hr/>
	8,126	6,130
	<hr/>	<hr/>

14 Share capital

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

15 Revenue reserve

	Company £'000
1 April 2003	72
Surplus for the year	54
	<hr/>
31 March 2004	126
	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

16 Group reserves

	Revaluation Reserve	Endowment Reserve	Restricted Reserves		Revenue Reserve	Total
	£'000	HD Clarke Memorial Fund £'000	Charitable Funds £'000	Reinvestment Fund £'000	Income and Expenditure Account £'000	£'000
1 April 2003	77	736	12,775	461	52,808	66,857
Surplus for the year	-	(41)	(38)	-	6,149	6,070
Surplus on revaluation of assets	401	-	-	-	-	401
Deficit on disposal of revalued current asset investments	(25)	-	-	-	-	(25)
Contribution to RSF Reinvestment fund	-	-	-	23	(23)	-
Transfer of funds	-	-	-	-	139	139
31 March 2004	453	695	12,737	484	59,073	73,442

RSF Reinvestment Fund (for major repairs to properties)

The reserve represents that part of surplus rental income less expenditure to date which the Group is required to hold in a Rent Surplus Fund for properties developed prior to the Housing Act 1988. The surplus rental income, calculated in a manner determined under Section 55 of the Housing Act 1988, amounted to £63,000 (2003: £61,000) of which 90% is provided for in accordance with this Act.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

	Group	
	2004	2003
	£'000	£'000
17 Capital commitments		
Expenditure contracted, less certified	8,545	7,720
Expenditure authorised by the Board, but not contracted	17,905	40,486
	<hr/>	<hr/>
	26,450	48,206
	<hr/>	<hr/>

18 Contingent liabilities

At 31 March 2004 and 31 March 2003 there were no known contingent liabilities.

19 Transfer of funds from Methodist Homes for the Aged (Second) Housing Association

In 1989 Methodist Homes for the Aged and Methodist Homes (Second) Housing Association jointly constructed the sheltered housing scheme at Guisborough. On the 26 November 2003 Methodist Homes for the Aged (Second) Housing Association was wound up and the assets were transferred to Methodist Homes for the Aged.

Assets transferred consisted of:

	£'000
Fixed Assets	7
Debtors	29
Cash at Bank	103
	<hr/>
	139
	<hr/>

20 Pensions and similar obligations

The Group operates three pension schemes as a member of the MHA Care Group, two 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 Financial Reporting Standard 17, Retirement Benefits ("FRS17"), are as follows:

	2004	2003
	% pa	% pa
Inflation	2.50	2.50
Rate of increase in salaries	4.50	4.50
Rate of increase for pensions in payment	2.50*	2.50*
Rate of increase for deferred pensions	2.50*	2.50*
Discount rate	5.50	5.40

* 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 2004
(continued)

20 Pensions and similar obligations (continued)

The assets in the scheme and the expected rate of return were:

	2004		2003	
	Fair Value	Expected Return	Fair Value	Expected Return
	£'000	%	£'000	%
Equities	11,117	8.00	8,317	9.10
Government bonds	3,516	4.80	3,192	4.50
Cash	329	4.00	492	3.75
Total	14,962	7.16	12,001	7.66
Present value of scheme Liabilities	(20,895)		(20,044)	
Deficit in the scheme	(5,933)		(8,043)	
FRS 17 funding level	72%		60%	

The last formal valuation of the scheme was performed as at 30 September 2001 by a professionally qualified actuary. A valuation is due to be made as at 30 September 2004.

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.

- (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.

The contribution by the Group to all pension schemes during the year amounted to £956,000 (2003: £1,009,000).

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

21 Notes to the cash flow statement

	2004 £'000	2003 £'000
a) Reconciliation of operating surplus to operating cash flows		
Operating surplus	5,513	1,959
Profit from sale of retirement housing stock	120	118
Depreciation	1,574	1,389
Revaluation adjustment	(105)	775
(Increase)/decrease in retirement housing stock	(1,643)	186
Increase in debtors	(331)	(104)
Increase in creditors	691	604
(Profit)/loss on disposal of current asset investments	(80)	66
	<hr/>	<hr/>
Net cash inflow from operating activities	5,899	4,993
	<hr/>	<hr/>

Movements in debtors and creditors which relate to capital and interest transactions are excluded from the movements in debtors and creditors shown.

	2004 £'000	2003 £'000
b) Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash	(1,553)	1,801
Cash inflow from liquid resources	(559)	(680)
Cash inflow from increase in debt	(2,500)	(4,500)
Cash outflow from loan financing	511	12
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(4,101)	(3,367)
Loan indexation	(7)	(6)
Decrease in market value of current asset investment	(455)	(998)
Net funds transferred from Methodist Homes for the Aged (Second) Housing Association	103	-
	<hr/>	<hr/>
Movement in net debt	(3,550)	(4,371)
Net debt at 1 April	4,721	9,092
	<hr/>	<hr/>
Net debt at 31 March	1,171	4,721
	<hr/>	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004
(continued)

21 Notes to the cash flow statement - continued

c) Analysis of net changes in debt

	1 April 2003 £'000	Cash flow £'000	Transfer of funds £'000	Other changes £'000	31 March 2004 £'000
Cash at bank and in hand	7,937	(1,553)	103	-	6,487
Debt due within one year					
Housing loans – principal	(5)	11	-	(11)	(5)
Debt due after more than one year					
Housing loans – principal	(1,630)	-	-	4	(1,626)
Bank loan	(4,500)	(2,000)	-	-	(6,500)
Current asset investments	2,919	(559)	-	455	2,815
	<u>4,721</u>	<u>(4,101)</u>	<u>103</u>	<u>448</u>	<u>1,171</u>

22 Group structure

MHA Care Group has the following subsidiary undertakings:

Methodist Homes Housing Association

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.

Redcroft Residential Home

Incorporation: Charity Registration Number 251276

Principal activity: Charitable provision and management of a residential care home

This charity has not been consolidated on the grounds that the net assets and level of activities are not material to the Group.