



CARE UK
plc



Report & Accounts 2002

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Highlights for the year

	#2002 £000	#2001 £000	Change	2002 Total	2001 Total
Turnover	97,794	81,239	+20.4	97,794	81,239
Operating profit*	11,391	9,641	+18.2	8,429	7,450
Profit before tax*	8,338	7,090	+17.6	5,376	4,899
Profit before tax	7,838	6,647	+17.9	4,876	4,456
Earnings	5,028	4,453	+12.9	2,955	2,919
Undiluted earnings per share	10.25p	9.17p	+11.8	6.02p	6.01p
Total dividend per share	2.55p	2.30p	+10.9	2.55p	2.30p

* before goodwill amortisation of £500,000 (2001: £443,000)

results before revenue investment costs

Care UK is pleased to report good growth in turnover with significant improvement in operating profit delivered during the second half of the year

- Accounting policy changed for long-term contracts. Revenue investment £3.0m (2001: £2.2m)
- New business awarded during the second half:
 - Preferred provider and contract appointments totalling £14m annualised turnover
 - Further preferred provider awards reflect a strong new business pipeline
 - Residential Care Services
 - Hammersmith and Fulham - elderly care, 25 years, 140 beds
 - Enfield - elderly care, 25 years, up to 130 beds
 - Croydon - adult mental health care, 5 years, 10 beds
 - Community Care Services
 - Hammersmith & Fulham - homecare services, 25 years, 700 hours per week
 - Hackney - 3 years, homecare services, 500 to 750 hours per week
 - Total contracted income
 - Residential Care Services £434m
 - Community Care Services £21m
- Current indicative preferred provider income value £439m
- Total Group occupancy level 98%
- New Plc Finance Director and Group Human Resources Director

“The opportunities for Care UK to expand substantially its residential and community care services are encouraging. Not only is the outsourcing of public sector nursing and residential care services continuing, but we are also seeing the emerging impact of Primary Care Trusts commissioning innovative services to deliver improved quality of care at better value.”

“The partnership approach developed over many years by Care UK is aligned with the Government’s strategy to engage the private sector to work with the public sector to achieve its objective of transforming health and social care services.”

John Nash
Chairman



Pat Blythman, 92, has lived at Laurel Dene for a year. Pat writes, loves art and craft and has taken a keen interest in the reconstruction of Laurel Dene.

Results

I am pleased to report an excellent improvement in all divisions, reflecting the impact of new business and the turnaround of under-performing activities, resulting in significantly improved margins.

New contracts and preferred provider appointments are announced in both divisions, representing annualised turnover of £14m. The total indicative value of all current preferred provider appointments is £439m, in addition to our total current contracted income of £455m.

Long-term outsourcing contracts

Some of our contracts involve the transfer of facilities and staff from the public sector to Care UK and, on the basis of a long-term contract, the homes are redeveloped to result in a modern and efficient portfolio. During the initial redevelopment period, material excess operational costs are incurred until cost savings are achieved, and significant land sale proceeds are received as surplus land is sold. This applies to 3 contracts: Hillingdon, which was transferred to us in 2000, Richmond in 2001 and Surrey in 2002.

Within the Interim Results announcement we provided analysis to give greater visibility of the investment profiles of these long-term contracts.

As a result of our decision to change our accounting policy in respect of such contracts, we will now be taking the excess operational costs and land sale proceeds directly to the profit and loss account. Previously, such costs and proceeds were treated as long-term contract balances and charged to the profit and loss account over the life of the relevant contract, because all such costs are taken into account in negotiating the contract prices and are recovered directly from the contract over its life. Our auditors have agreed to our proposal to make this change, the impact of which is that revenue investment costs of £3.0m incurred during the year have been expensed through the profit and loss account in 2002 (2001 restated: £2.2m). Further details are set out in the Financial Review.

Dividend

The Board is recommending a final dividend of 1.70p per share (2001: 1.50p per share), giving a total dividend for the year of 2.55p per share (2001: 2.30p per share), an increase of 10.9%. The final dividend will be paid on 31 January 2003, to shareholders on the register on 13 December 2002.

Employees

Since his appointment as Chief Executive in November 2001, Mike Parish has initiated a general strengthening of the management team to lead Care UK to its next phase of substantial growth and development. Paul Humphreys was appointed as Group Finance Director in July 2002, and Steve Bennett joined the Executive team as Group Human Resources Director, also in July 2002. The new organisational structure announced with our Interim Results which realigns our services into Residential Care Services and Community Care Services, is enabling more effective leverage of Group expertise and improved delivery of service quality.

The Board would like to express its thanks to James Bryant, who retired from the position of Plc Finance Director in September. James has made a significant contribution during his 14 years with Care UK, and we wish him happiness in retirement.

On behalf of the Board, I would like to express our appreciation for the professionalism and commitment of our staff. The care and support they provide, day in and day out, often in very distressing and challenging situations, is a great credit to them.

Outlook

The opportunities for Care UK to expand substantially its residential and community care services are encouraging. Not only is the outsourcing of public sector nursing and residential care services continuing, but we are also seeing the emerging impact of Primary Care Trusts commissioning innovative services to deliver improved quality of care at better value.

The partnership approach developed over many years by Care UK is aligned with the Government's strategy to engage the private sector to work with the public sector to achieve its objective of transforming health and social care services.

John Nash
Chairman
20 December 2002



John Rowe, 51, has lived at Stafford Road since February 2002. John is a keen photographer, an avid Chelsea supporter and enjoys a varied social life.

Overview

As I reach the end of my first year with Care UK, I am pleased to report good progress across the business in terms of quality delivery, profit performance, and new contract awards.

During the year we have resolved the operational difficulties that had held back profit improvement both in 2001 and the early part of this year.

Review of operations

Specialist elderly care delivered commendable improvements in turnover and operating profit, reflecting the impact of new contracts, effective price inflation indexation, and tight cost control.

The proportion of contracted beds continues at 77%, which together with strong demand for the remaining beds, resulted in an overall occupancy level of 98%.

I am pleased to report encouraging progress in **mental health care** in the second half of the year, during which we have improved from an EBITA loss of £22,000 in the first half to a profit of £396,000 in the second half.

A key driver to this improvement was the impact of the contract for 10 of the 16 beds at Tariro House with East London and City Mental Health Trust, effective from June. We have also achieved improvements in occupancy levels in other homes, with total occupancy running at 90%.

The turnaround in performance in our **learning disabilities services** is a credit to the management of that business. An EBITA profit of just £22,000 in the second half of last year was improved to a profit of £276,000 in the first half of this year, and to £749,000 in the second half.

This progress has been achieved as a consequence of improving staff recruitment and retention difficulties, and through resolving a number of commercial issues.

Our **homecare** business improved operating margins through enhanced operational controls and benefited from the positive contribution of the acquisition of a business contracting with Brighton Social Services. We will continue to drive increased volume through the existing branch infrastructure, as well as to selectively make acquisitions to extend further the branch network.

We are particularly pleased with the increased focus on hospital discharge initiatives, as well as on more intensive homecare packages generally. We believe that Primary Care Trusts will have a significant interest in such initiatives.

To sustain our focus on delivering quality services, the provision of training to unqualified homecare staff is critical. We employ our own training team who deliver grant funded courses to TOPSS (Training Organisation for the Personal Social Services) standards, a distinguishing feature for a major national provider. We are continuing to develop our training services, both for our internal requirement and, increasingly, as a commercial enterprise.

Further progress was achieved in our **specialist recruitment** business. We are becoming a more significant provider, particularly in the supply of consultant psychiatrists. We have recently appointed a new Managing Director, Dominic Rothwell, to accelerate our growth momentum.

New service implementations

During the year, a number of new services were implemented or transferred.

Details of these new services are presented below according to our new organisational structure that was announced at our interim results. We have now reorganised the Group into two divisions, Residential Care Services and Community Care Services, to focus functional expertise on further improving operational performance and central administration efficiency, as well as to drive future growth.

Residential Care includes Community Partnerships, Mental Health Partnerships, and the residential services of Care Solutions, whilst Community Care includes Homecare, Care Solutions supported living services, and Specialist Recruitment.

Residential care services

In January 2002, Surrey County Council transferred to us a portfolio of 7 residential elderly care homes comprising 345 beds. The transfer was completed successfully and we have now added day centres to 6 of the homes and are nearing completion of the complete redevelopment of Whitebourne.

The redevelopment of the Richmond and Hillingdon portfolios of homes continued. The Hillingdon project will soon be completed on time and to budget. We were pleased to welcome Jacqui Smith, Minister of State for Mental Health and Social Care, at the redeveloped Whitby Dene home.

During the first quarter, a new home for the elderly mentally ill was opened at Heatherbrook, Romford. An integrated home and day care centre for elderly and mentally ill people in Middlesbrough is scheduled to open in January 2003.

A new 16 bed home in Reading contracted with Berkshire Healthcare NHS Trust and Reading Borough Council was opened, providing high dependency residential and crisis intervention beds for people with mental illness. A 12 bed nursing home for adults with severe mental illness was opened in Hastings.

Community care services

Following the homecare contract award in March by Norfolk County Council, we have established a new branch in Great Yarmouth that is now delivering 1,500 hours per week. This brings our annual turnover with Norfolk Council to £1.8m, achieved through successful tendering on the back of quality services delivered throughout the county.

Our new homecare contract with the London Borough of Barking & Dagenham has also been successfully implemented and we now provide double the initial contract volume. This service is focused on highly dependent people, often involving four separate calls each day and the need for 'double-up' teams of care workers.

New contracts providing 24 hour care for 30 people with learning disabilities commenced in Essex, Scotland, and Newcastle.

New business awards

Our two divisions, Residential Care Services and Community Care Services, have been jointly selected as preferred provider by the London Borough of Hammersmith and Fulham for the construction of two new homes and a 32 place sheltered housing facility. This 25 year project is a result of joint commissioning between the Borough and Hammersmith and Fulham Primary Care NHS Trust. We will be providing 140 beds and 700 hours each week of homecare to the sheltered housing tenants.

The two homes will provide 110 high dependency nursing care beds, 20 rehabilitation beds and 10 respite care beds for intermediate care and to support hospital discharge initiatives. The developments include day care services providing extensive therapeutic and rehabilitation services, assisted daily living suites and hydro-therapy pools. Net capital investment will be around £10.5m.

Following extensive discussions, the London Borough of Enfield has appointed us preferred provider for their residential homes development project. They currently operate 3 residential homes with 130 beds and we continue to work with them to develop a viable solution providing a mix of long-term nursing and residential care, as well as intermediate and respite care

Croydon Primary Care NHS Trust has appointed us as preferred provider for a 5 year contract for a 10 bed forensic community hostel to provide high dependency nursing care and rehabilitation for working age adults with severe and enduring mental health needs and associated offending behaviour. The service will focus on individual needs and has a long-term aim to enable clients to return to independent or semi-independent living. Capital investment will be around £1.25m.

During the last six months we successfully renewed our homecare contract with Leicestershire County Council and were awarded a block contract by Hackney Social Services to provide homecare services of between 500 and 750 hours per week. This service commenced in early October and is being phased in over the initial twelve weeks, having already reached 350 hours per week.

Previously announced new business

At the time of our interim results, we announced we had been awarded preferred provider status for a number of new contracts.

The London Borough of Islington has selected us for the provision of two new Resource Centres with 111 beds and 40 day-care places. The centres will provide a combination of nursing, residential, and respite care. The contract, which is for 25 years involving capital investment of £6.9m, is now expected to be signed early in 2003.

We were selected by the London Borough of Hillingdon to provide a new 65 bed facility to provide intermediate care and other nursing services in partnership with the local Primary Care Trust. This is to be built on land made available at Franklin House as a consequence of our existing re-development project with the London Borough of Hillingdon. Capital investment is expected to be around £3.8m.

Berkshire Healthcare NHS Trust and Reading Borough Council have awarded us a further contract, for the provision of a 12 bed high dependency nursing home. The property development has been delayed, and is now due to be completed toward the end of the 2002/03 financial year.

Although we were re-appointed by Northamptonshire County Council for the transfer and redevelopment of 8 residential homes with 330 beds to result in 6 residential homes with 309 beds, this project has not progressed as anticipated. We continue to work with the Council to identify a viable solution within their affordability criteria.

Outlook

The Government has set high expectations from UK health and social care services and has increased investment accordingly. I am encouraged by the resolve shown by the Government to introduce greater engagement of private sector providers.

At Care UK we believe that continuing care of the elderly, the mentally ill, and of people with learning disabilities, whether in residential settings or in peoples' own homes, will attract further increased Government funding, with services increasingly being provided by private sector companies.

Our experience and new business pipeline indicates that Primary Care Trusts and Local Authorities are keen to generate new capacity and services focused on their key priority areas and there is increasing evidence that they are working collaboratively on projects that integrate care solutions.

Summary

Having focused the organisation into two business streams and strengthened the senior management team, we are focused to derive improvements in both operational and administrative effectiveness.

Care UK has a good depth of sound operational expertise, and experienced business leadership. It is a company with demonstrable expertise and empathy with public sector partnership process and culture, and it has an enviable new business pipeline.

Few businesses enjoy such consistent growth and have over 65% of turnover secured on long-term contracts. This represents a strong foundation for future prospects. Our market continues to grow and we believe we are well positioned to maintain momentum of our existing services and to introduce new services as opportunities emerge for more extensive private sector provision to UK health and social care.

Mike Parish
Chief Executive
20 December 2002

Specialist Elderly Care Case Study

Care UK and the London Borough of Richmond Upon Thames

The challenge

In 1999 the London Borough of Richmond Upon Thames operated five residential care homes for the elderly, with a total of 214 beds. All the facilities were designed and constructed in the 1960s and by the late 1990s were having difficulty in meeting the environmental quality required under modern registration standards as well as the higher expectations of clients and their relatives. Budgetary issues precluded the investment of the required capital by the Council, which was looking to form a relationship with an outsourcing care provider, with proven skills as an operator of similar services and the ability to plan and manage the development of complex services.

The solution

Following the preparation and acceptance of a full business case outlining the benefits of PFI procurement, in 2000 Richmond appointed Care UK as preferred bidder after a full tendering exercise. The 25 year contract was signed in March 2001. Care UK is investing £10 million in the development of three purpose built care homes, providing 209 beds, designed to meet both the Council's specification and all applicable care standards for residential, nursing, rehabilitation and intermediate care services. The development is to take approximately 4 years. Care UK has taken responsibility for managing the existing homes during this complex and sensitive transitional programme, involving the transfer of residents between facilities. Two sites from the original five will become surplus following completion of the development plan and will eventually be sold, with the proceeds being retained by Care UK as part of the funding of the capital programme.

The results

Although the redevelopment programme is not yet complete, one of the former homes has already been closed as planned and the residents transferred into the comfortable surroundings of a brand new home on the same site. This first development is part of a larger building, with the second wing to be completed in 2003, and provides the highest standards of accommodation for 97 people.

For Richmond Upon Thames, the benefits of improved service quality and the contribution the new facilities will make to the local health economy is already starting to flow through. These will be significantly greater by 2005 when the last facility is completed. The principal benefits will include:

- Significantly higher accommodation standards enabling the provision of improved care service quality;
- 'Flexible' buildings designed to respond to changes in service commissioning over 25 years;
- The new facilities will provide rehabilitation and respite care services, and are designed to deliver on the Government's 'promoting independence' agenda. The services will be highly flexible community resources enabling earlier acute hospital discharge and avoiding some hospital admissions. These supportive and preventative services are intended, where appropriate, to return people to their own homes with adequate support and avoid the revolving door syndrome of repeated hospital readmission.

The capital investment of £10m by Care UK will deliver a strong and highly visible return for shareholders, supported by the long-term contract signed with Richmond.

Mental Health Care Case Study

Care UK and Barnet, Enfield and Haringey Mental Health NHS Trust

The unit

Avesbury House is a low secure unit for adults with severe and enduring mental illness and associated offending behaviour. The unit, situated in North London, has been operated by Care UK since 1999 in partnership with Barnet, Enfield and Haringey Mental Health NHS Trust. This contract was gained through building on an existing relationship with the Trust, with whom Care UK had previously worked to provide an elderly care service in Enfield. When the Trust identified a need for a new community based mental health service, Care UK was the obvious partner of choice.

The challenge

The Trust was experiencing a chronic bed-blocking problem in its regional medium secure unit due to a lack of alternative 'move on' services. Clients were being detained unnecessarily and inappropriately in a unit providing a higher level of security than their condition required. The Trust therefore had to make 'out of area' placements, which were both costly and inconvenient.

Having identified a demand for a low secure unit within Enfield, which could act as a 'step down' facility to the regional medium secure unit, the Trust was keen to commission a non-institutionalised service that would provide clients with the opportunity to be rehabilitated back into community life.

The solution

Care UK purchased an existing property from the Trust for conversion into a 24-bed unit, with a total investment of £2.4m. The Trust purchase all 24 beds and has sole admitting rights, on a three year rolling contract basis. The annual contract value of £1.8m is a more cost-effective solution for the Trust than making out of area spot purchases.

Care UK has responsibility for the day-to-day operation of the unit whilst the Trust provides specialist clinical services including occupational therapy, social work, psychology and psychiatry.

Avesbury House provides a comprehensive programme of ongoing assessment, treatment and rehabilitation, which is tailored to individual needs. The main objectives are to maximise the full potential and quality of life for clients, and increase their independence. The emphasis on treatment is to provide a service that is a stepping-stone to future, less supported, placements or independent living.

Clients are encouraged to participate in local community life. Avesbury House has formed links with local colleges, services and organizations, which provide useful forums for its clients to develop, and improve their quality of life. Many clients attend courses to enable them to relearn or improve their basic skills such as reading, writing and mathematics, as well as more advanced courses in English literature or vocational courses such as computing and jewellery making. This also gives clients an opportunity to socialise and integrate with others, which is equally important for their personal development.

The result

Since the unit opened in 1999, 20 clients have been discharged and more than 85% of these have moved on from Avesbury House to less supported community placements, such as hostels and group homes, within a period of under 2 years. This has created the fluidity in the system, which the Trust was looking for, ensuring avoidance of 'bed-blocking'. The success of Avesbury House is underpinned by the excellent working relationship with our partners at the Trust and the commitment of the staff.

Homecare Case Study

Care UK and Norfolk Social Services

The background

Prior to 1999 Care UK was one of 48 providers supplying domiciliary care to Norfolk Social Services on a spot purchase basis. The Local Authority was experiencing a wealth of problems associated with using several different providers, which led to all providers being invited to tender for a block contract in North Norfolk, for which just one would be selected. Having previously maintained a good working relationship with the Local Authority and a reputation of providing high quality services, Care UK was successful in its bid for the block contract.

The contract started in September 1999, initially providing 800 hours of domiciliary care per week, increasing subsequently to 1,350 hours, to elderly clients in North Norfolk. The contracted services have since expanded further, in response to the needs of the Local Authority, and Care UK now also provides an additional 800 hours per week to the elderly and people with physical disabilities in Norwich, and has developed successful 'Reablement' and 'Rapid Response' services.

The challenge

In addition to the initial problems associated with spot purchasing homecare services from various providers, including varying levels of service quality, difficulties in maintaining records and lack of continuity for the service user, Norfolk was experiencing other difficulties.

The general hospitals in the area were experiencing severe capacity problems, particularly in the winter months. A large number of elderly patients were being admitted for treatment of minor illnesses such as chest infections or a fall for which they could be looked after at home, resulting in bed blocking, such that the Authority was often unable to find a bed for those with a more serious illness.

In addition, the Authority was experiencing a strain on resources for the convalescence of elderly people who were recovering from a stroke or an accident, who ideally could have been looked after at home if a specialist service had been available.

The solution

By setting up a local branch and recruiting high quality staff, Care UK was able to overcome the initial challenges of providing the block contract. Once the service was successfully operational, the regional team approached the Local Authority to offer solutions to other problems.

Care UK has now developed a Rapid Response service (110 hours per week) which was set up to assist with capacity over the winter months, enabling individuals to be cared for at home instead of being admitted to hospital, thus reducing bed blocking. The Rapid Response Team consists of 8 specially trained careworkers who are based strategically within Norfolk. Local hospitals, GPs, the Ambulance Service and Social Services Emergency Duty Team are able to call upon these careworkers to provide an out-of-hours emergency care service to individuals in their own home.

More recently Care UK has set up an innovative "reablement" service. Careworkers are specially trained by a Senior Physiotherapist which enables them to assist individuals, usually over a six week period, with basic exercises and daily living tasks allowing them to rehabilitate at home. Care UK now provides 240 hours per week of reablement services, which are generally provided alongside basic homecare.

The results

These services continue to operate successfully with great benefit to the Local Authority and are therefore expanding continuously, with a current annual value of approximately £1.0m. The North Norfolk contract volume increases on average by 10% per quarter and the Norwich contract has also seen steady growth, with considerable further potential. In November 2001 Care UK were asked to provide the rapid response service all year round and the contract was extended to 2004. Continuous evaluation has shown that the rapid response service is needed and achieving the desired results. It is hoped that the service will become progressively available to an increasing number of clients. The reablement service has also continued to expand and the number of trained careworkers has grown from 8 to 24.





Robert Vary, 52, has lived at Stafford Road since February 2002. Robert enjoys shopping, eating out and cinema. His hobbies include art and pottery classes.

Results for the year

The Group results, set out in the consolidated profit and loss account, show underlying operating profit, before goodwill amortisation, of £11.4m (2001: £9.6m), underlying profit before tax of £7.8m (2001: £6.6m), and underlying earnings per share of 10.25p (2001: 9.17p). As anticipated at the time of the interim results, the second half showed a substantial increase in Group profit compared with the first half. The underlying results are stated before the revenue investment in development projects, which are dealt with below. Including the impact of the change in accounting policy set out below, profit before tax is £4.9m (2001: £4.5m).

These results have two key aspects, which require detailed comment. First, the decision taken by the Group, and agreed by our auditors, to change the basis of accounting for our long term outsourcing contracts. Second, the realignment of the Group's businesses into two focused streams, rather than the four divisions previously reported.

Long-term outsourcing contracts

The Group commenced trading under the first such contract in 2000 (Hillingdon) with further contracts commencing in 2001 (Richmond) and 2002 (Surrey). This type of contract typically involves the transfer of employees to the Group under TUPE regulations together with the redevelopment of homes and the sale of sites which become surplus as a result of the overall development plan. Material excess costs arise during the early years of the contract until cost savings are achieved as a result of property redevelopment and operating and organisational efficiencies, as well as benefits from the introduction of common systems, information technology and other Group synergies. These costs are partly offset by proceeds receivable from the sale of the surplus sites noted above.

Previously, the Group applied the principles of SSAP 9 to the net excess costs arising under such contracts because all such costs and proceeds are taken into account in negotiating the contract prices and are therefore recovered directly from the contract over its life. The net excess costs were therefore capitalised and amortised to the profit and loss amount over the contract period.

Care UK has now decided to adopt the alternative policy of taking all such costs and proceeds directly to the profit and loss account as revenue investment in development projects. The Group profit and loss account shows clearly underlying performance before the effect of these costs, as well as the level of revenue investment now being expensed. The effect of the revised policy will be to reduce reported profits in the early years of a contract, during its initial development phase, and to increase profits once the development phase has been completed and all such costs have been expensed.

The existing contracts absorbed £3.0m of revenue investment in the current year (2001: £2.2m), in line with their respective trading plans. The cumulative revenue investment in the contracts at 30 September 2002 amounts to £5.8m, and the cumulative capital investment for the same projects is £9.7m. The underlying operating profit contribution from the three contracts amounted to £2.1m in 2002.

Operating structure

As announced with the Interim Results, the Group has implemented a new organisation structure in order to achieve optimal operational effectiveness. The segmental results for 2002 are shown below both in the divisional format that previously applied, in order to aid current comparability, and in the new structure, to provide a benchmark for future comparison. The following comments on the segmental results relate to the previous operating structure and apply to operating profit before the revenue investment in development projects referred to above.

Segmental results

Specialist elderly care	2002 £000	2001 £000
Turnover	53,259	45,916
Operating profit *	9,476	7,986
Operating margin	17.8%	17.4%

* Before goodwill amortisation and revenue investment costs

Results for this division showed strong growth in both turnover (16.0%) and operating profit (18.7%). The year benefited from a full year of trading for the Richmond contract, which commenced in April 2001, and from the maiden 8 months contribution from the Surrey residential care contract. Our new 45 bed home in Romford, Heatherbrook, opened as planned in December 2001 and has performed ahead of plan for its first 10 months.

Mental health care	2002 £000	2001 £000
Turnover	8,671	5,836
Operating profit *	374	582
Operating margin	4.3%	10.0%

* Before goodwill amortisation

As expected the second half performance in Mental Health has shown a good improvement, delivering an operating profit of £396,000 on turnover of £4,834,000. The first half results were adversely affected by Tariro House in Hackney, where occupancy levels were inadequate. This was rectified by the award of a 2 year contract for 10 beds commencing in June 2002. The year also included the first contributions from the new homes in Reading and Hastings. Occupancy levels in other homes have also improved and management focus is bringing down the level of agency costs being incurred, contributing to improved profitability.

Learning disabilities services	2002 £000	2001 £000
Turnover	13,298	10,051
Operating profit *	1,025	252
Operating margin	7.7%	2.5%

* Before goodwill amortisation

The Essex and Surrey contracts, added during the year, are now fully established and are contributing satisfactorily to divisional profitability. The rate of progress achieved in the first half has continued as expected into the second half, enabling a substantial increase in operating profit to be achieved for the year.

Homecare and specialist recruitment	2002 £000	2001 £000
Turnover	22,566	19,436
Operating profit *	2,015	1,591
Operating margin	8.9%	8.2%

* Before goodwill amortisation

The growth in turnover of 16.1% was achieved both through the acquisition made in Brighton at the beginning of the financial year, and through organic growth from new contracts in our established branches. Volume efficiencies have also contributed to an improvement in the operating margin.

The table below shows the 2002 operating profit, before revenue investment in development projects and goodwill amortisation, restated to the new operating structure.

	2002 Turnover £000	2002 Operating profit* £000	2002 Operating margin %
Residential care services	65,674	10,261	15.6%
Community care services	32,120	2,629	8.2%
Central costs	-	(1,499)	-
Group total	<u>97,794</u>	<u>11,391</u>	<u>11.6%</u>

* Before goodwill amortisation and revenue investment costs

Tax

The 2002 results reflect the implementation of FRS 19, Deferred Taxation, which has contributed to the increase in the headline rate of tax to 39.4% (2001 restated: 34.5%). However, the more appropriate indicator is the level of current tax actually payable, measured against profit before goodwill amortisation. This measure indicates the tax-related cash outflow that will occur. In 2002 this rate is 28.0% (2001: 24.9%), excluding the revenue investment costs in development projects in both years.

Cash flow, net debt and funding

Group net debt increased during the year by £9.0m to £59.5m as a result of the continued investment both in the construction programme and in the development of the long term outsourcing contracts referred to earlier.

The cash inflow from operations, excluding the revenue investment in development projects, was £12.9m. This represents 113% of earnings before goodwill amortisation measured on the same basis. After the revenue investment of £3.0m, the net cash flow from operations was £9.9m.

Net capital investment during the year amounted to £10.7m, of which over 95% was invested in the construction of new homes. A total of £0.9m was spent on acquired businesses, including deferred consideration payable in respect of businesses acquired in earlier years.

Net stakeholder payments, comprising interest, tax and dividends less proceeds from share issues absorbed a further £7.3m.

Group borrowing facilities at 30 September 2002 amounted to £77.3m, comprising term loans of £49.3m, a £25m 5 year evergreen Revolving Credit Facility and £3.0m of overdraft. The undrawn balance under these facilities will be used to fund the continuing investment in the growth of the Group

Earnings and dividends

Underlying earnings per share were 10.25p (2001: 9.17p), an increase of 11.8%. Total dividends for the year, paid and proposed, amount to 2.55p (2001: 2.30p), an increase of 10.9%.

Paul Humphreys
Finance Director
20 December 2002



Victor Lipscombe, 74, has lived at Greville House since July 1994. He is currently President of the Residents Committee and enjoys gardening and crosswords.

Helena Sands, 81, has lived at the Burroughs since August 2001. Helena, seen here with Poppy, enjoys socialising and bingo.



Jay Nicholls, 27, has lived at Riverswey since 1998. Jay has many hobbies including listening to music and watching soaps - he can name every soap star on TV!



Florrie Eales, 82, has lived at Craig House since November 2001. Florrie, seen here with Erwin Banag, is an avid supporter of Fulham Football Club.



Fred Williams, 91, seen here with Josie Longman, has lived at the Burroughs since April 2002. Fred enjoys reading, playing cards and is keen on cricket.



Directors

	Date of Appointment	
JAS Nash	4 March 1994	Non-Executive Chairman
RS Clough	25 November 1987	Non-Executive Deputy Chairman
MR Parish	5 November 2001	Chief Executive
PJ Humphreys	8 July 2002	Finance Director
GC Lomer	30 August 2001	Executive Director
Sir Tim Chessells	17 July 1995	Non-Executive
L James	1 September 2000	Non-Executive
F Ternofsky	1 September 2000	Senior Independent Non-Executive
JRS Bryant	26 May 1988	Formerly Finance Director (resigned 30 September 2002)

Secretary and Registered Office

PJ Humphreys
Connaught House, 850 The Crescent, Colchester Business Park,
Colchester, Essex C04 9QB.

Auditors

KPMG Audit Plc
6 Lower Brook Street, Ipswich, Suffolk IP4 1AP.

Bankers

Bank of Scotland
Corporate Banking, 7th Floor, 155 Bishopsgate, Bishopsgate Exchange,
London EC2M 3YB.

National Westminster Bank Plc
Corporate Banking, Unit 2, Wellbrook Court, Girton, Cambridge CB3 0NA.

HSBC Bank plc
Midland House, 26 North Station Road, Colchester, Essex CO1 1SY.

Brokers

UBS Warburg
1 Finsbury Avenue, London EC2M 2PP.

Registrars and Transfer Office

Computershare Investor
Services Plc
PO Box 82, The Pavilions,
Bridgwater Road, Bristol BS99 7NH.

Biographical details of directors



John Nash, 53

qualified as a barrister, having read law at Oxford University. He is Chairman of Sovereign Capital Ltd., having previously been Managing Director of Advent Limited, and worked for Lazard Brothers & Co., Limited. He is a director of several companies in which Sovereign has invested and is a former Chairman of the British Venture Capital Association.

Richard Clough, 56

qualified as a chartered accountant and after a period with British Mohair Spinners Plc, he joined the Peter Blond Group and was subsequently appointed Managing Director. He joined the Company in 1987 and, as Chief Executive, led Care UK's particular healthcare strategy. He was appointed Deputy Chairman on 5 November 2001. He is Chairman of Medscreen Ltd and Deputy Chairman of Care Malta Plc.

Mike Parish, 43

has extensive managerial experience in the service sector and in outsourcing. Joined NFC as a graduate trainee in 1981 and was appointed Exel Divisional Director in 1992. In 1995 he initiated the formation of a joint venture company between Exel and Bass Brewers called Tradeteam and was appointed Managing Director. Subsequently Mike's responsibilities were extended as Joint Chief Executive, Exel Europe and in 1999 he was appointed to the Exel Plc main board as Chief Executive of Exel's global industrial division. Mike was appointed Chief Executive of Care UK in November 2001.

Paul Humphreys, 44

qualified as a chartered accountant at Ernst & Whinney and then spent 3 years in ICI's Mond Division. He joined Care UK Plc from McLeod Russel Holdings Plc, a fully listed engineering group, where he was Group Finance Director for almost 10 years. He remains as a non-executive director of that group. Prior to McLeod Russel, Paul was Finance Director at Leeda Group, a subsidiary of Porter Chadburn Plc, and held various positions at Bluebird Toys Plc including Managing Director of the Bluebird UK Division.

Graham Lomer, 45

qualified as a chartered accountant in London with Pannell Kerr Foster. He joined the company in 1987 and was appointed as Managing Director of Care UK Community Partnerships in 1999 having assisted with the development of the company's public sector contracting business since 1992. During 2002, he was appointed to the new position of Managing Director Business Development.

Lesley James, 53

has extensive experience in the personnel and human resources field. Having joined Tesco plc in 1985 she became Human Resources Director in 1995 until she retired in 1999. She is a non-executive director of Selfridges Plc, the West Bromwich Building Society, Queens Moat Houses Plc, Alpha Airports Plc and the Insolvency Service together with being a trustee of the charity I CAN, and Governing Council Member for the Open University. She is also a visiting fellow at the University of Surrey.

Sir Tim Chessells, 61

has extensive experience of the NHS, having been a Board member of South East Thames Regional Health Authority from 1988 to 1990 and Chairman of North East Thames Regional Health Authority from 1990 to 1992. From 1992 until March 1995 he was Chairman of the London Implementation Group and a member of the National Health Service Policy Board. He is Chairman of Catalyst Healthcare Ltd, a PFI consortium company, Chairman of the BT Pension Scheme and Hermes Pension Management Ltd., and Chairman of Match Holdings Ltd.

Fritz Ternofsky, 58

has wide experience in management in the hotel and catering industry latterly as a main board director of Compass Group plc with Chief Executive responsibilities initially for Europe and later for UK and Scandinavia. He remains a consultant to Compass Group Plc. He is a non-executive director of Exel Plc, Punch Taverns Plc, Dolphin Nursery Limited and Chairman of Kew Green Hotels Limited and UK Explorer.

Photo from left (standing): Richard Clough, Graham Lomer, Sir Tim Chessells, Paul Humphreys and Lesley James.

From left (seated): Mike Parish, John Nash and Fritz Ternofsky.

for the year ended 30 September 2002

The directors present their report, together with the audited Financial Statements for the year ended 30 September 2002.

Principal Activities, Trading Review, and Future Prospects

Care UK has two business streams each providing outsourcing services:

- Residential Care Services provides:
 - Specialist elderly care provides specialist healthcare, intermediate and social care for the elderly, and facilities management services, under long term contracts with the NHS and Social Services.
 - Mental health care provides specialist nursing and residential care for adults with mental illness in partnership with the NHS and Social Services.
 - Learning disabilities services provides residential care for people with learning disabilities, under contracts with the NHS and Social Services.
- Community Care Services provides:
 - Homecare provides carers to support people in their own homes under contract with Social Services.
 - Learning disabilities services provides supported living services, care and day activities for people with learning disabilities, under contracts with the NHS and Social Services.
 - Specialist recruitment provides specialist healthcare professionals for the NHS and the private sector.

Results and Dividends

The Consolidated Profit and Loss Account is set out on page 26. The profit for the year retained by the Group is £1,703,000. Other movements in reserves are shown in Note 20 of the Financial Statements.

The directors declared an interim dividend of 0.85p per share (2001: 0.80p), which was paid on 24 June 2002, and now recommend the payment of a final dividend of 1.70p per share (2002: 1.50p), making a total dividend for the year of 2.55p per share (2002: 2.30p). The final dividend will, subject to shareholders' approval, be paid on 31 January 2003 to shareholders on the register at 13 December 2002.

Employment of Disabled Persons

It is Group policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to disabled persons. Wherever practicable, we continue to employ and promote the careers of existing employees who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Environmental Report

The Group, as a caring organisation, is committed to achieving high standards of environmental management. The Board encourages its employees, suppliers and customers to consider the impact of their actions on the environment and to strive for continuous improvement. Our stated policies are structured to comply with the many regulations which are laid down by statute for our industry.

We ensure that all staff, as part of their induction training, receive appropriate and necessary knowledge with regard to Health and Safety matters, food handling and moving and handling techniques.

To assist in this regard we regularly check that our buildings, equipment, fixtures and fittings comply with all necessary standards and are suitable for our staff to use in fulfilling their duties.

In our dealings with human and clinical waste we regularly carry out appropriate risk assessments, we ensure our staff receive training in all aspects of waste management and we endeavour to implement a standardised approach to the collection, handling and disposal of all forms of waste, preferably at the point of generation.

We take all possible steps to eliminate the risk of contamination occasioned by the spread of infection. Risk assessment, establishment of appropriate procedures, intensive training courses and regular clinical audits are all used in this regard.

In our building work, we endeavour to comply with the Agenda 21 guidelines which followed the UN conference in Rio de Janeiro in 1992. We also seek to ensure that our sub contractors and suppliers follow best practice in this regard.



for the year ended 30 September 2002

Training & Quality Assurance

Care UK believes in and provides for the training of its employees to give them the opportunity to fulfil their roles more effectively, develop their skills and enhance their future prospects. The Group is actively involved in the "Investors In People" programme.

Employee Involvement

Management regularly visits our homes and local offices and discusses with members of staff matters of current interest and concern to the business. In

order to encourage employees to become shareholders of the Company and to participate in the achievements of the Group, the Company operates a Save As You Earn share option scheme (see Note 19 of the Financial Statements).

Charitable and Political Donations

The Group's policy is to support a number of charities which themselves support the elderly and disadvantaged people. During the year it made charitable donations of £2,940 (2001: £8,240). No political donations were made (2001: £Nil).

Directors

The directors of Care UK during the year and their beneficial interests in the ordinary share capital of Care UK were:

	30 September 2002 Ordinary Shares of 10p each	30 September 2001* Ordinary Shares of 10p each
JAS Nash	4,181,779	4,181,779
RS Clough	120,198	120,198
JRS Bryant	103,235	126,579
MR Parish	25,821	-
PJ Humphreys	7,500	-
Sir Tim Chessells	30,000	30,000
L James	9,000	4,000
F Ternofsky	4,000	4,000
GC Lomer	660	660

*Or date of appointment, if later

In accordance with the Articles of Association: (i) (a) JAS Nash and (b) RS Clough retire by rotation and, being eligible, offer themselves for re-election. (ii) PJ Humphreys being an executive director appointed since the last AGM retires and being eligible offers himself for re-election.

Substantial Shareholders

The directors have been notified of the undermentioned interests comprising 3% or more of the issued share capital of Care UK as at 20 December 2002:

	No. of Shares	Percentage
HBOS plc	5,036,091	10.26%
Gartmore Investment Ltd., Gartmore Fund Managers and Fenplace Two Ltd.	4,991,872	10.17%
JAS Nash	4,231,779	8.62%
Edinburgh Fund Managers	4,065,044	8.29%

Apart from the interests disclosed above, the directors are not aware of any other shareholding which amounts to 3% or more of Care UK's issued share capital as at 20 December 2002 and requires disclosure.

for the year ended 30 September 2002

Statement on Payment of Suppliers

The Company's aim is to pay suppliers in accordance with the payment terms agreed at the outset of the relationship providing the supplier adheres to its contracted obligations.

As at 30 September 2002 the number of billing days outstanding to suppliers by the Company was 24 (2001: 24).

Auditors

Care UK's auditors, KPMG Audit Plc, have affirmed their willingness to be reappointed as auditors to the Company and a resolution for the reappointment of KPMG Audit Plc as auditors will be proposed at the forthcoming AGM.

Annual General Meeting

The Notice of the Annual General Meeting is set out on page 52. The attention of shareholders is drawn to the notes forming part of the Notice of the Annual General Meeting.

By Order of the Board

PJ Humphreys
Secretary
20 December 2002

for the year ended 30 September 2002

In June 1998 the UK Listing Authority published the Principles of Good Governance and Code of Best Practice ('the Combined Code') which is derived from the work of Cadbury, Greenbury and Hampel committees.

The Company has complied with the provisions of the Combined Code throughout the year.

The Company applies the principles of the Combined Code in the following ways:

Internal Control

The directors are responsible for the Group's system of internal controls and for reviewing its effectiveness. The internal control systems are designed to meet the group's particular needs and manage the risks to which it is exposed, and by its nature can only provide reasonable, but not absolute, assurance against misstatement or loss.

The Combined Code has introduced a new requirement, that the directors' review the effectiveness of the Group's system of internal controls. This requirement extends the directors' review to cover all controls including:

- Financial;
- Operational;
- Compliance; and
- Risk management

The directors confirm that there is an ongoing process for identifying, evaluating and managing the risks faced by the group, that has been in place for the year under review, and that this process is regularly reviewed by the directors.

The Group operates in one of the most closely monitored and regulated areas of business, the care sector. Its divisions are subject to external inspections by registration and other authorities which are followed up by publicly available reports. It also conducts its own internal inspections.

With regard to financial matters, the Group operates within a control environment which is designed to provide reasonable assurance regarding, the safeguarding of assets against unauthorised use or disposition, the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Key established procedures are:

- The definition of the organisation structure and the appropriate delegation of responsibility to operational management;
- definition of authorisation limits, both financial and otherwise;
- Written operational procedures;
- A system of financial reporting encompassing an annual budget, updated forecasts and the monthly reporting of actual results measured against both budget and forecast;
- The regular assessment of risks facing the business and the reporting of operational performance to the Board, including internal and external operational audit reports.

Annually, the board of directors of the divisions review the systems of internal control in their division, which are supported by assessments of key business risks, controls and resulting exposures and confirm their compliance with them.

The Audit Committee assists the Board in fulfilling its oversight responsibilities, primarily reviewing the systems of internal control and risk management, and the audit process. The external auditors attend all relevant meetings.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal controls utilising inter alia, the procedures identified above.

Going Concern

After making enquiries the directors, at the time of approving the Financial Statements, have formed the judgement that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

The statement of directors responsibilities for preparing the Financial Statements is set out on page 24.

for the year ended 30 September 2002

Directors

The Care UK Board comprises the non-executive Chairman, the Chief Executive, two other senior executives and four non-executive directors. The directors biographies appear on page 17 and detail their experience ensuring an effective Board to lead and manage the Group. The Board considers all of its non-executive directors, excluding JAS Nash and RS Clough, to be independent, F Ternofsky being identified as the senior independent director.

All directors have access to the Company Secretary and may take independent advice at the Group's expense. The Board meets monthly and has adopted a schedule of matters reserved for its decision. The Board has established three committees with defined terms of reference as follows:

The Remuneration Committee

The Remuneration Committee is comprised of the non-executive directors chaired by L James. The committee recommends the remuneration of the executive main Board, including the granting of share options and service contracts. The Remuneration Report appears on page 23.

The Audit Committee

The Audit Committee comprises the non-executive directors other than RS Clough and L James under the chairmanship of Sir Tim Chessells. The committee has direct access to the Company's auditors and liaises with executive management to review the effectiveness of internal controls.

The Nomination Committee

The Nomination Committee comprises L James, JAS Nash, RS Clough, Sir Tim Chessells, F Ternofsky and MR Parish and is chaired by L James, and meets as and when necessary for the appointment of new directors.

Relations with Shareholders

The Board understands the need for communication with both institutional and private shareholders. In addition to general presentations after publication of results the Chief Executive and Finance Director meet regularly with fund managers, analysts and institutional investors. The Company's AGM provides a forum for all shareholders to attend and put questions to the Board. All resolutions are proposed separately. All results statements, company announcements and investor presentations are accessible to all shareholders via the Group's website, www.careuk.com

Remuneration report

for the year ended 30 September 2002

The Remuneration Committee is comprised exclusively of non-executive directors and is chaired by L James.

In recommending the remuneration policy to the board, the Committee considers a number of factors including:

- (a) the basic salaries and benefits available to executive directors of comparable companies;
- (b) the need to attract and retain directors of an appropriate calibre; and
- (c) the need to ensure executive directors' commitment to the continued success of the Company by means of incentive schemes.

Full details of directors' remuneration are included in Note 6 of the Financial Statements and details of their shareholdings in the Company are shown in the Directors' Report.

Remuneration of Non-Executive Directors

All non-executive directors receive a fee for their services which is agreed by the Board. Their services are remunerated through the Company payroll. None of the non-executive directors receives any pension or participates in any of the incentive schemes.

All the non-executive directors letters of appointment are for periods not exceeding 3 years. The Company's Memorandum of Association requires that one third in number of all directors retire by rotation in each year.

Remuneration Policy for Executive Directors

The Company's remuneration policy for executive directors is to:

- (a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;
- (b) link individual remuneration packages to the Group's long-term performance through the award of share options and incentive schemes;
- (c) provide post retirement benefits through defined contribution personal pension schemes; and

- (d) provide employment related benefits including the provision of company car, life assurance, permanent health insurance, insurance relating to the directors' duties and medical insurance.

Salaries and Benefits

The Remuneration Committee meets at least once a year in order to consider and set the annual salaries for executive directors. Remuneration is considered with regard to personal performance and independently compiled salary summary information.

Share Options

Share Options have been granted under the No.2 Executive Scheme, the Performance-related Share Option Scheme and the SAYE Scheme, full details of which are contained in Notes 6 and 19 of the Financial Statements.

Pensions

The Group's contributions to defined contribution personal pension schemes in respect of the executive directors are detailed in Note 6 of the Financial Statements.

Contracts of Service

MR Parish, PJ Humphreys and GC Lomer have one year rolling service agreements. There is no provision in any director's contract for predetermined compensation.

The Committee would review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances.

L James

Chairman of Remuneration Committee

20 December 2002

Statement of director's responsibilities

for the year ended 30 September 2002

Company law requires the directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;

and

- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 1985.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report

for the year ended 30 September 2002

Independent Auditors' Report to the members of Care UK plc

We have audited the Financial Statements on pages 26 to 50.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 24 this includes responsibility for preparing the Financial Statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority (FSA) and by our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the Financial Statements, 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 21 and 22 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes 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 Group'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 Company and the Group as at 30 September 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

*Chartered Accountants
Registered Auditor
Ipswich
20 December 2002*

Consolidated profit and loss account

for the year ended 30 September 2002

	Notes	Results before revenue investment costs £000	2002 Revenue investment in development projects £000	Total £000	Results before revenue investment costs £000	2001 Revenue investment in development projects £000	Total as restated (note 20) £000
Turnover							
Continuing operations		96,353	-	96,353	81,239	-	81,239
Acquisitions		1,441	-	1,441	-	-	-
		97,794	-	97,794	81,239	-	81,239
Cost of sales	3	(74,733)	(2,962)	(77,695)	(62,766)	(2,191)	(64,957)
Gross profit	3	23,061	(2,962)	20,099	18,473	(2,191)	16,282
Administrative expenses	3	(12,170)	-	(12,170)	(9,275)	-	(9,275)
Operating profit before goodwill amortisation	2	11,391	(2,962)	8,429	9,641	(2,191)	7,450
Goodwill amortisation		(500)	-	(500)	(443)	-	(443)
Operating profit		10,489	(2,962)	7,527	9,198	(2,191)	7,007
Continuing operations		10,489	(2,962)	7,527	9,198	(2,191)	7,007
Acquisitions		402	-	402	-	-	-
	2	10,891	(2,962)	7,929	9,198	(2,191)	7,007
Net interest payable	4	(3,053)	-	(3,053)	(2,551)	-	(2,551)
Profit on ordinary activities before taxation	7	7,838	(2,962)	4,876	6,647	(2,191)	4,456
Taxation	8	(2,810)	889	(1,921)	(2,194)	657	(1,537)
Profit on ordinary activities after taxation		5,028	(2,073)	2,955	4,453	(1,534)	2,919
Dividends	9			(1,252)			(1,127)
Retained profit				1,703			1,792
Earnings per share	10						
Basic		10.25p		6.02p	9.17p		6.01p
Diluted		10.14p		5.96p	9.02p		5.91p
Basic (before goodwill amortisation)		11.27p		7.04p	10.08p		6.92p
Diluted (before goodwill amortisation)		11.15p		6.97p	9.91p		6.81p

There were no material differences between the result as disclosed in the profit and loss account and that given by an unmodified historical cost basis.

All results derive from continuing operations.

Balance sheets

as at 30 September 2002

		Group	As restated (note 20)	Company	As restated (note 20)
	Notes	2002 £000	2001 £000	2002 £000	2001 £000
Fixed assets					
Intangible assets	11	9,288	9,072	-	-
Tangible assets	12	90,400	81,908	383	316
Investments	13	40	29	15,999	15,998
		99,728	91,009	16,382	16,314
Current assets					
Stocks	14	828	314	-	-
Debtors	15	13,157	11,494	72,774	61,609
Cash at bank and in hand		2,877	2,259	15	111
		16,862	14,067	72,789	61,720
Creditors					
Amounts falling due within one year	16	(15,456)	(18,991)	(3,704)	(5,794)
Net current assets/(liabilities)		1,406	(4,924)	69,085	55,926
Total assets less current liabilities		101,134	86,085	85,467	72,240
Creditors					
Amounts falling due after more than one year	17	(60,388)	(47,637)	(59,202)	(46,029)
Provisions for liabilities and charges	18	(4,254)	(3,702)	-	-
Net assets		36,492	34,746	26,265	26,211
Capital and reserves					
Called up share capital	19	4,909	4,904	4,909	4,904
Share premium account	20	3,205	3,167	3,205	3,167
Merger relief reserve	20	-	-	8,951	8,951
Revaluation reserve	20	95	95	-	-
Profit and loss account	20	28,283	26,580	9,200	9,189
Shareholders' funds - equity		36,492	34,746	26,265	26,211

The Financial Statements on pages 26 to 50 were approved by the Board of Directors on 20 December 2002 and were signed on its behalf by:

MR Parish, *Chief Executive*
PJ Humphreys, *Finance Director*

Consolidated cash flow statement

for the year ended 30 September 2002

	Notes	2002 £000	2001 £000
Cash inflow from operations	24	9,933	9,576
Returns on investments and servicing of finance			
Interest paid		(3,754)	(2,969)
Interest element of finance lease rentals		-	(4)
Interest received		17	41
Net cash outflow from returns on investments and servicing of finance		(3,737)	(2,932)
Taxation			
UK Corporation tax paid		(2,384)	(1,641)
Capital expenditure			
Purchase of tangible fixed assets		(11,950)	(13,401)
Sale of tangible fixed assets		1,224	205
Net cash outflow from capital expenditure and financial investment		(10,726)	(13,196)
Acquisitions			
Purchase of subsidiary undertaking (net of cash acquired with subsidiary)		-	(515)
Payment to acquire businesses (net of cash acquired with the business)	13	(915)	(1,659)
Net cash outflow from acquisitions		(915)	(2,174)
Equity dividends paid		(1,154)	(1,065)
Cash outflow before financing		(8,983)	(11,432)
Financing			
Issue of ordinary share capital		43	809
New secured loans		12,349	10,062
Repayments of amounts borrowed		(1,122)	(90)
Capital element of finance lease payments		(25)	(54)
Net cash inflow from financing		11,245	10,727
Increase/(decrease) in cash in the year	25	2,262	(705)
Reconciliation of net cash flow to movement in net debt			
Net debt at start of year		50,535	38,646
(Increase)/decrease in cash for the year		(2,262)	705
New secured loans		12,349	11,328
Repayment of amounts borrowed		(1,122)	(90)
Capital element of finance lease payments		(25)	(54)
Increase in net debt during the year		8,940	11,889
Net debt at end of year	25	59,475	50,535



Other consolidated primary statements for the year ended 30 September 2002

Reconciliation of movement in shareholders' funds

	2002	Group 2001 as restated
	£000	£000
Opening shareholders' funds as previously stated	40,130	35,486
Prior year adjustments : adoption of FRS 19	(3,252)	(2,523)
long term outsourcing contracts	(2,132)	(598)
Opening shareholders' funds as restated	34,746	32,365
Retained profit for the financial year	1,703	1,792
Issue of shares	43	809
Goodwill reinstated	-	(220)
Closing shareholders' funds	36,492	34,746

Statement of total recognised gains and losses

	Notes	Year to 30 Sept 2002	Year to 30 Sept 2001 (as restated)
		£000	£000
Retained profit for the financial year		1,703	1,792
Total gains and losses recognised for the year		1,703	1,792
Prior year adjustment	20	(5,384)	
Total gains and losses recognised since last annual report		(3,681)	

1. Accounting policies

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and in accordance with applicable Accounting Standards.

The Group has adopted FRS 19 "Deferred Tax" in these financial statements. Financial Reporting Standard (FRS) 19 "Deferred Tax" requires that deferred tax should now be provided in full on all timing differences where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred to the balance sheet date. In addition, the Group has changed its accounting policy in respect of long term outsourcing contracts. The effect of these on prior year reserves is shown in note 20.

The following accounting policies have been consistently applied:

Basis of consolidation

Where a subsidiary is consolidated under acquisition accounting rules and the fair value of the purchase consideration exceeds the fair values attributable to the net assets acquired, the difference is treated as purchased goodwill. In accordance with FRS 10, the goodwill arising on acquisitions completed on or after 1 October 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful life, which will not exceed 20 years. Goodwill arising on acquisitions prior to this date was taken directly to reserves in the year of acquisition. On the disposal of businesses, any unamortised goodwill in the balance sheet or goodwill previously taken to reserves in respect of such business is charged against the disposal in the profit and loss account.

Turnover

Turnover represents sales and services to third party customers at invoiced amounts, excluding value added tax where applicable.

Fixed assets

Freehold and long leasehold land and buildings are carried in the Financial Statements at cost or external professional valuation. The last valuation was 1992 and following the implementation of FRS 15 there will be no further valuations. Assets in the course of construction are carried in the Financial Statements at cost.

The cost of land and buildings includes both the costs of financing homes in the course of construction and other costs that are directly attributable to bringing the asset into working condition for its intended use. Capitalisation of finance and other costs ceases at the date of registration of the home.

Depreciation is provided to write off the cost, less estimated residual values, of fixed assets over the following expected useful lives,

Freehold and long leasehold land	No depreciation provided
Freehold and long leasehold buildings	50 years or if shorter, the period of the lease
Motor vehicles	4 years
Furniture, fittings and equipment	3 to 10 years

Stocks

Stocks are valued at the lower of cost and net realisable value.

Revenue investment in development projects

All excess operational costs and land sale proceeds in respect of long term outsourcing contracts are taken directly to the profit and loss account as they are incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences arising from the different treatment of certain items for taxation and accounting purposes which have not reversed by the balance sheet date, except as otherwise required by FRS 19. No discounting is applied to deferred tax balances.

Leasing

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

Contributions to defined contribution personal pension schemes are charged to the profit and loss account in the year in which they become payable. Contributions to the defined benefit pension schemes are charged to the profit and loss account so as to spread the costs of pensions over the employees' working lives with the Group. The assets of all schemes are held separately from those of the Group in independently administered managed funds.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

2. Segmental analysis

All of the Group's activities take place in the UK.

Analysis by class of Business:	Turnover		Operating profit		Net assets	
	2002	2001	2002	2001	2002	2001
	£000	£000	£000	£000	£000	£000
Specialist elderly care	53,259	45,916	9,476	7,986	15,660	15,626
Mental health care	8,671	5,836	374	582	495	859
Learning disabilities services	13,298	10,051	1,025	252	2,850	2,065
Homecare and specialist recruitment	22,566	19,436	2,015	1,591	6,551	5,609
Central costs	-	-	(1,499)	(770)	26,265	26,146
Adjustment on consolidation	-	-	-	-	(15,329)	(15,559)
Total before goodwill amortisation and revenue investment in development projects	97,794	81,239	11,391	9,641	36,492	34,746
Goodwill amortisation	-	-	(500)	(443)	-	-
Total before revenue investment in development projects	97,794	81,239	10,891	9,198	36,492	34,746
Revenue investment in development projects	-	-	(2,962)	(2,191)	-	-
As reported	97,794	81,239	7,929	7,007	36,492	34,746

The acquisition made during the year relates to the Homecare and specialist recruitment division.

3. Operating Profit

	Existing operations	2002 Acquisitions	Total	2001 Total
	£000	£000	£000	(as restated) £000
Turnover	96,353	1,441	97,794	81,239
Cost of sales	(76,656)	(1,039)	(77,695)	(64,957)
Gross profit	19,697	402	20,099	16,282
Administrative expenses	(12,170)	-	(12,170)	(9,275)
Operating profit	7,527	402	7,929	7,007

4. Net interest payable and similar items

	2002 £000	2001 £000
Interest payable on bank overdrafts and loans	3,342	3,068
Interest payable on finance leases	-	4
Less: amount capitalised to assets in the course of construction	<u>(272)</u>	<u>(480)</u>
Interest payable and similar charges	3,070	2,592
Interest receivable	<u>(17)</u>	<u>(41)</u>
Net interest payable	<u>3,053</u>	<u>2,551</u>

5. Employees

	2002 £000	2001 £000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	54,534	50,268
Social Security costs	3,934	3,723
Other pension costs	838	496
	<u>59,306</u>	<u>54,487</u>

Other pension costs represent contributions to the Group's pension schemes. Accrued contributions at 30 September 2002 were £Nil (2001: £Nil).

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

	2002 Number	2001 Number
Nursing, care & support staff	6,628	5,882
Management & administration	<u>451</u>	<u>400</u>
	<u>7,079</u>	<u>6,282</u>

6. Directors

Note	Salaries and fees	Performance bonus	Benefits in kind	Total exc. pension contributions	Pension contributions	2002	2001
						Total inc. pension contributions	Total inc. pension contributions
	£000	£000	£000	£000	£000	£000	£000
Executive directors							
MR Parish (i)	182	25	11	218	18	236	-
PJ Humphreys (ii)	18	6	1	25	2	27	-
GC Lomer (iii)	90	23	8	121	11	132	7
JRS Bryant (iv)	88	10	12	110	12	122	106
S Kenney (v)	-	-	-	-	-	-	106
Non-executive directors							
JAS Nash	15	-	-	15	1	16	15
RS Clough (vi)	143	-	5	148	29	177	189
Sir T Chessells	15	-	-	15	-	15	15
F Ternofsky	15	-	-	15	-	15	15
L James	15	-	-	15	-	15	15
RA Meadows (vii)	-	-	-	-	-	-	8
	581	64	37	682	73	755	476
							521

Notes

- (i) Appointed Chief Executive on 5 November 2001.
- (ii) Appointed Finance Director on 8 July 2002.
- (iii) Appointed to the Board on 30 August 2001.
- (iv) Formerly Finance Director and retired from the Board on 30 September 2002.
- (v) Resigned from the Board on 30 June 2001.
- (vi) Formerly Chief Executive until 5 November 2001. Amounts in respect of service as an executive director in the year ended 30 September 2002 were £148,000 (excluding pension contributions) and £177,000 (including pension contributions). Became non executive on 30 September 2002.
- (vii) Resigned from the Board on 31 March 2001.

The services of the non-executive directors are remunerated directly through the Company payroll. There are no other contracts in which any of the directors have an interest.

Details of the Group's share option schemes are given in Note 19. Options have been granted to directors under the Care UK No.2 Executive Scheme, the Performance Related Share Option Scheme and the SAYE Scheme as follows:

	Scheme	Date of Grant	Number of shares	Exercise Price
MR Parish	Performance-Related Share Option Scheme	d) 21 December 2001	200,000	180.5p
GC Lomer	No.2 Executive Scheme	a) 23 January 1996	41,500	76.0p
		12 July 2000	4,725	205.0p
	Performance-Related Share Option Scheme	c) 28 August 1996	43,000	99.0p
		d) 21 December 2001	50,000	180.5p
RS Clough	No.2 Executive Scheme	a) 23 January 1996	25,000	76.0p
		b) 9 July 1996	20,000	113.0p
	SAYE Scheme	12 July 2000	4,725	205.0p
		Performance-Related Share Option Scheme	c) 28 August 1996	400,000

Notes

- (i) The options exercisable by RS Clough were granted during his service as an executive director.
- (ii) Following his retirement from the Board on 30 September 2002 JRS Bryant has the right to exercise the outstanding options granted under the No.2 Executive and Performance Related Option Schemes for a period of six months, until 31 March 2003.

The share options granted to directors under the No.2 Executive Scheme disclosed above, are exercisable on the following dates:

- a) Between 23 January 1999 and 22 January 2006
- b) Between 9 July 1999 and 8 July 2006

The market value of the Company's ordinary shares at 30 September 2002 was 134.5p per share and the price range during the year was from 126.5p to 236.5p per share.

The performance criteria for the options granted under the Performance Related Share Option Scheme are detailed in Note 19.

The share options granted under the Performance-Related Share Option Scheme (c) on 28 August 1996 become exercisable in tranches in 1999, 2000 and 2001 and the final date for exercise is 27 August 2003, and (d) on 21 December 2001 become exercisable in tranches in 2004, 2005 and 2006 and the final date for exercise is 20 December 2008. The performance criteria under these options are detailed in note 19. The Performance-Related Share Option options Scheme granted on 21 July 1999 lapsed during this financial year.

7. Profit on ordinary activities before taxation

	2002	2001
	£000	£000
This is arrived at after charging/(crediting):		
Depreciation - owned assets	2,520	2,137
- leased assets	-	21
Auditors' remuneration	97	83
Leasehold occupancy costs	2,457	1,902
Hire of other assets - operating leases	6	6
Profit on disposal of fixed assets	(47)	(25)
Goodwill amortisation	500	443

Of the auditors' remuneration £8,200 (2001: £8,000) was in respect of the Company. In addition other fees paid to the auditor and its associates for non-audit services for the year ended 30 September 2002 amounted to £68,000 (2001: £35,000).

8. Taxation on profit on ordinary activities

	2002	2001 (as restated)
	£000	£000
UK Corporation Tax payable at 30% (2001: 30.0%)	1,442	1,107
Deferred taxation	552	564
Adjustment relating to previous years	(73)	(134)
	<u>1,921</u>	<u>1,537</u>

The tax charge for the year represents an effective rate on profit on ordinary activities of 39.4% (2001: 34.5%). The rate for the year ended 30 September 2002 is affected inter alia by capital allowances for the year.

The current tax charge for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below.

Current tax reconciliation	2002	2001 (as restated)
	£000	£000
Profit on ordinary activities before tax	<u>4,876</u>	<u>4,456</u>
Current tax at 30%	1,463	1,337
Current tax charge	<u>1,442</u>	<u>1,107</u>
Under charge	<u>21</u>	<u>230</u>
Effects of:		
Expenses not deductible for tax purposes	(60)	(75)
Goodwill	(500)	(443)
Capital allowances for period in excess of depreciation	498	797
Other	75	448
Net total items	<u>13</u>	<u>727</u>
Tax at 30%	4	218
Plus tax charged at 20%	<u>17</u>	<u>12</u>
Under charge	<u>21</u>	<u>230</u>

9. Dividends

	2002	2001
	£000	£000
Ordinary dividends		
Interim paid of 0.85p per share (2001: 0.80p)	418	391
Final proposed of 1.70p per share (2001: 1.50p)	834	736
	<u>1,252</u>	<u>1,127</u>

The final dividend proposed of 1.70p per ordinary share (subject to shareholders' approval), will be paid on 31 January 2003 to shareholders on the register at 13 December 2002.

10. Earnings per share

The calculation of earnings per share is based on a weighted average of 49,050,819 issued ordinary shares (2001: 48,582,467) in issue during the year ended 30 September 2002 and on £2,955,000 and £3,455,000 (2001: £2,919,000 and £3,362,000 restated in respect of FRS 19 and revenue investment in development projects) being the profit attributable to ordinary shareholders after and before goodwill amortisation respectively.

The diluted earnings per share is based on a weighted average of 49,556,246 ordinary shares (2001: 49,389,841) calculated in accordance with FRS 14 which assumes that all dilutive options will be exercised. The profit attributable to ordinary shareholders after and before goodwill amortisation of £2,955,000 and £3,455,000 (2001: £2,919,000 and £3,362,000 restated in respect of FRS 19 and revenue investment in development projects) has been calculated on a similar basis.

The calculation of undiluted and diluted earnings per share for the year to 30 September 2002 before the revenue investment in development projects is based on the same weighted average of issued ordinary shares and profit attributable to ordinary shareholders as shown above.

11. Intangible assets

Intangible assets represents goodwill arising on acquisitions completed on or after 1 October 1998.

	Group £000
Goodwill	
Cost	
At 1 October 2001	9,818
Additions	719
Adjustment in respect of acquisitions made in prior years	(3)
At 30 September 2002	<u>10,534</u>
Amortisation	
At 1 October 2001	746
Charge for year	500
At 30 September 2002	<u>1,246</u>
Net book value:	
At 30 September 2002	<u>9,288</u>
At 30 September 2001	<u>9,072</u>

12. Tangible assets

Group	Land & buildings £000	Motor vehicles £000	Furniture fittings & equipment £000	Assets in course of construction £000	Total £000
Cost or valuation:					
At 1 October 2001	70,472	949	11,746	5,810	88,977
Additions	2,726	286	1,421	7,756	12,189
Transfers	4,483	-	434	(4,917)	-
Disposals	(320)	(378)	(150)	(586)	(1,434)
At 30 September 2002	77,361	857	13,451	8,063	99,732
Depreciation:					
At 1 October 2001	1,527	460	5,082	-	7,069
Charge for year	988	184	1,348	-	2,520
Disposals	-	(231)	(26)	-	(257)
At 30 September 2002	2,515	413	6,404	-	9,332
Net book value:					
At 30 September 2002	74,846	444	7,047	8,063	90,400
At 30 September 2001	68,945	489	6,664	5,810	81,908

Freehold land and buildings include depreciable assets with an original cost of £40,522,000 (2001: £39,825,000) and capitalised interest of £1,784,000 (2001: £1,691,000). Included within the net book value of land and buildings are long leasehold buildings which have a net book value of £10,892,000 (2001: £11,113,000).

Assets in the course of construction include capitalised interest of £437,000 (2001: £258,000). The net book value of motor vehicles includes assets with a cost of £Nil (2001: £105,000) and accumulated depreciation of £Nil (2001: £44,000) held under finance leases. The depreciation charge on fixed assets held under finance leases was £Nil (2001: £21,000).

Those properties included in the total for land and buildings, which are not carried at their original cost, amount to £1,833,000, equivalent to their 1992 open market valuation. These values have been retained in the Financial Statements under the transitional provisions of FRS 15. The directors do not intend to adopt a policy of annual valuation in the future.

The comparable amounts for freehold premises calculated in accordance with the historical cost convention are:

	£000
Cost	77,663
Accumulated depreciation	<u>(2,914)</u>
Net book value:	
At 30 September 2002	<u>74,749</u>
At 30 September 2001	<u>68,850</u>

Company	Motor vehicles £000	Furniture fittings & equipment £000	Total £000
Cost:			
At 1 October 2001	57	408	465
Additions	31	71	102
Transfers	25	-	25
Disposals	<u>(57)</u>	<u>-</u>	<u>(57)</u>
At 30 September 2002	56	479	535
Depreciation:			
At 1 October 2001	57	92	149
Charge for year	12	34	46
Transfers	14	-	14
Disposals	<u>(57)</u>	<u>-</u>	<u>(57)</u>
At 30 September 2002	26	126	152
Net book value:			
At 30 September 2002	<u>30</u>	<u>353</u>	<u>383</u>
At 30 September 2001	<u>-</u>	<u>316</u>	<u>316</u>

13. Investments

	Freehold reversionary interests £000	Group Other £000	Total £000	Company Shares in subsidiary undertakings £000
Cost or valuation				
At 1 October 2001	29	-	29	15,998
Additions	-	11	11	1
At 30 September 2002	<u>29</u>	<u>11</u>	<u>40</u>	<u>15,999</u>

Amounts shown in "other" relate to the joint venture formed in October 2001 between our specialist pharmacy recruitment business for the retail sector. Pro Pharm Consultants and Henry Perlow Group's Locumlink. The new business, Locumlink PPC, owned 50% by Care UK, is led by the Locumlink management team.

Business acquired	Book Value £000	Fair value adjustments £000	Fair Value £000
Net assets acquired	-	-	-
Goodwill			<u>719</u>
Total			<u>719</u>
Satisfied by:			
Cash on acquisition			<u>719</u>

The business acquired during the year was a homecare business which provides care workers and nurses to nursing and residential homes in the Brighton area.

During the year £196,000 deferred consideration was paid in respect of acquisitions made in previous years.

14. Stocks

	2002 £000	Group 2001 (as restated) £000
Properties for sale	99	131
Other	<u>729</u>	<u>183</u>
	<u>828</u>	<u>314</u>

15. Debtors

	2002 £000	Group 2001 £000	2002 £000	Company 2001 £000
Due within one year:				
Trade debtors	10,729	9,506	43	163
Amounts owned by subsidiary undertakings	-	-	70,570	60,890
Prepayments and accrued income	1,026	596	403	113
Other	1,110	1,392	433	443
Corporation tax	292	-	1,325	-
	<u>13,157</u>	<u>11,494</u>	<u>72,774</u>	<u>61,609</u>



16. Creditors falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£000	(as restated) £000	£000	£000
Bank loans and overdrafts (note 17)	1,964	5,144	-	-
Obligations under finance leases	-	13	-	-
Trade creditors	1,742	2,069	63	36
Amounts owned to subsidiary undertakings	-	-	2,117	4,657
Corporation tax	-	867	-	-
Employee taxes and social security	1,905	1,713	-	-
Accruals and deferred income	7,552	8,107	664	366
Dividend	834	736	834	735
Other	1,459	342	26	-
	<u>15,456</u>	<u>18,991</u>	<u>3,704</u>	<u>5,794</u>

Included within bank loans and overdrafts are loan notes issued to the vendors of acquired businesses, amounting to £549,000 (2001: £2,541,000). The loan notes carry interest at base lending rate and are redeemable in the periods to April 2001 and April 2003 at the holders option.

17. Creditors falling due after more than one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank loans	60,388	47,625	59,202	46,029
Finance leases	-	12	-	-
	<u>60,388</u>	<u>47,637</u>	<u>59,202</u>	<u>46,029</u>

Included within bank loans are two amounts of £100,000 each at fixed rates of 9.1% and 11.5% respectively, repayable by monthly instalments over the periods to 18 February 2004 and 9 May 2005.

The Group has a secured loan facility of £74,250,000. £50,000,000 of the facility expires on 26 March 2010, and carries repayments of £250,000 per quarter from and including 23 March 2002, increasing to £500,000 per quarter from and including 23 December 2004 with a single final repayment of the remaining balance due on 26 March 2010. £25,000,000 of the facility is a 5 year evergreen facility which carries no repayment requirement.

Included within bank loans are loan notes of £1,146,000 (2001: £1,518,000) issued to the vendors of acquired businesses, which carry interest at base lending rate and are redeemable at par between 30 June 2004 and 30 June 2006. A holder may however give notice to redeem up to 20 per cent of a holding in every 12 month period.

The bank loans, and the overdraft referred to in Note 16, are secured by fixed and floating charges over the freehold, long leasehold and certain other assets of the Group. The loan notes are guaranteed under the evergreen bank facility.

Financial assets

The Group has no financial assets, excluding short term debtors, other than cash at bank of £2,880,000. This is a sterling denominated deposit held in an interest bearing current account receivable on demand.

Financial instruments

The Group's financial instruments comprise short term debtors and creditors, borrowings and cash, all of which are denominated in Sterling. The main purpose of these financial instruments is to raise finance for the Group's operations. As permitted by FRS 13 'Derivatives and other financial instruments', short term debtors and creditors have been excluded from the disclosures.

It is, and has been throughout the year, the Group's policy that no trading of a speculative nature in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Finance Director is responsible for managing these risks and reports to the Board on a regular basis on the policies adopted. The policies are summarised below.

Interest rate risk

The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. During the year, the Group purchased 2 hedging instruments, details of which are as follows:

- On 12 March 2002, a 5 year cap was purchased at 6.5% on £25,000,000 of borrowings.
- A 7 year fixed rate swap was purchased at 5.67% plus margin on £25,000,000, effective as of 14 August 2002.

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has available bank and overdraft facilities totalling £77,250,000, sufficient, with cash flow from profits, to fund present commitments. Term facilities are utilised to fund capital expenditure and short term flexibility is achieved by the utilisation of overdraft facilities.

Maturity profile of financial liabilities

	Group	
	2002	2001
	£000	£000
Debt can be analysed as falling due:		
In one year or less, or on demand	1,964	5,157
In more than one year but not more than two years	1,186	1,608
In more than two years but not more than five years	1,000	2,750
In five years or more	58,202	43,279
	62,352	52,794

The Group has £3,000,000 of overdraft facilities.

Fair values of financial assets and financial liabilities.

The directors consider that the book value and the fair value of the Group's financial assets and liabilities are not materially different.



18. Provisions for liabilities and charges

Group	Provided	
	2002 £000	2001 (as restated) £000
Deferred taxation:		
Accelerated capital allowances	3,608	3,139
Other timing differences	646	563
	<u>4,254</u>	<u>3,702</u>

There are no unprovided deferred taxation liabilities (2001: £nil).

The movement on Group deferred taxation is as follows:

	2002 £000
At October 2001 (as restated)	3,702
Charged to profit and loss account	552
At 30 September 2002	<u>4,254</u>

All the above amounts are calculated at the standard full UK corporation tax rate of 30%.

19. Share capital

	2002 £000	2001 £000
Authorised		
70,000,000 ordinary shares of 10p each (2001: 70,000,000)	<u>7,000</u>	<u>7,000</u>
Ordinary shares		
49,083,576 allotted, called-up and fully paid shares of 10p each (2001: 49,040,032)	<u>4,909</u>	<u>4,904</u>

During the year the following ordinary shares of 10p each were allotted as a result of the exercise of options by employees:

Scheme	Exercise price per share	No of shares allotted
No.2 Executive Scheme	76.0p	11,000
SAYE Scheme	169.0p	692
SAYE Scheme	170.0p	2,352
Performance Related Scheme	99.0p	29,500
		43,544

Share options have been granted and are still outstanding under the No.2 Executive Scheme, the SAYE Scheme, and the Performance Related Share Option Scheme as follows:

1. No.2 Executive Scheme

The No.2 Executive Scheme was an unapproved scheme introduced at the time of the Group restructuring in 1994. It has subsequently been approved by the Inland Revenue, although options which are unapproved may still also be granted under the Scheme. At 30 September 2002 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
23 January 1996	153,385	76.0p
9 July 1996	204,000	113.0p
19 December 1997	20,100	145.0p
19 February 1998	81,192	159.5p
28 May 1998	10,000	181.0p
5 January 1999	22,500	214.5p
6 October 1999	20,000	219.0p
14 March 2000	14,500	222.5p
22 December 2000	18,000	241.5p
21 December 2001	23,000	180.5p

The options granted under this scheme are generally exercisable between the third and tenth anniversaries of the date of grant.

Total options lapsed were for 5,000 shares at 214.5p, 6,000 shares at 222.5p, 14,000 shares at 241.5p and 2,000 shares at 180.5p.

2. SAYE Scheme

At 30 September 2001 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
15 July 1999	121,340	170.0p
12 July 2000	187,754	205.0p
3 July 2001	258,924	220.0p
27 June 2002	261,842	171.0p

Options are normally exercisable on the third anniversary of the commencement of the related savings contract.

On 1 August 2002 the SAYE options that were granted on 15 July 1999 matured and were subscribed. The options exercised are set out above. Other options lapsed when employees closed their saving accounts. Total options lapsed were for 87,028 shares at 205.0p, 110,065 shares at 220.0p and 33,992 shares at 171.0p.

3. Performance Related Share Option Scheme

At 30 September 2002 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
28 August 1996	723,500	99.0p
5 January 1999	15,000	214.5p
22 December 2000	65,000	241.5p
21 December 2001	300,000	180.5p

The first grant of options became exercisable in three equal tranches in the years 1999 to 2001 following the achievement of the respective performance targets. They may then be exercised up to 27 August 2003.

The second, third and fourth grant of options initially become exercisable in three equal tranches in the three years to five years following grant. They may then be exercised up to seven years from the date of grant. The performance targets for each tranche normally require, that earnings per share for the previous three years must not be less than those for the base year increased by RPI + 5% with yearly rests.

Total options lapsed were for 800,000 shares at 220.0p, 20,000 shares at 222.5p, 40,000 shares at 241.5p and 20,000 shares at 180.5p.

20. Reserves

Group	Share premium	Revaluation reserve	Profit and loss account (as restated)
	£000	£000	£000
At 1 October 2001	3,167	95	26,580
Premium on issue of shares	38	-	-
Retained profit for the year	-	-	1,703
At 30 September 2002	3,205	95	28,283

Company	Share premium	Merger relief reserve	P & L account (as restated)
	£000	£000	£000
At 1 October 2001	3,167	8,951	9,189
Premium on issue of shares	38	-	-
Retained profit for the year	-	-	11
At 30 September 2002	3,205	8,951	9,200

In accordance with section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account. The profit for the year dealt with in the Company's own profit and loss account is £11,000 (2001: loss £1,693,000). The premium on issue of shares of £38,000 (2001: £711,000) is shown net of issue costs of £Nil (2001: £Nil).

Cumulative goodwill written off to reserves on the acquisition of subsidiary undertakings, net of that attributable to disposals, is £10,521,000 (2001: £10,521,000).

Deferred taxation

These accounts reflect the adoption of FRS 19, "Deferred Taxation", which requires that deferred tax should now be provided in full on all timing differences where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

The 2001 accounts have therefore been restated as a prior year adjustment under FRS 3. The reported tax charge for the year ended 30 September 2001 of £1,465,000 has been restated as £2,194,000 under FRS 19. Group reserves brought forward at 1 October 2000 have also been restated, and have reduced by £2,523,000. The reported tax charge for the year ended 30 September 2002 of £1,921,000 includes a deferred tax charge of £552,000.

Deferred tax balances have not been discounted.

Long term contract balances

During the year, Care UK has changed its accounting policy in respect of the treatment of long term outsourcing contracts. Previously the Group had applied the principles of SSAP 9 to the net excess operational costs arising under such contracts because all such costs are taken into account in negotiating the contract prices and are recovered directly from the contract over its life. The Group is now taking all such net excess operational costs directly to the profit and loss account as incurred, and has classified these costs as Revenue Investment in Development Projects. The Directors consider that the revised accounting policy, together with the presentational changes made to the Group profit and loss account, provide a clearer view of the performance of the underlying business whilst taking account of the revenue investment made during the year in supporting new projects.

The 2001 accounts have been restated to reflect this change in accounting policy. The prior year adjustment in respect of these costs is £2,191,000 with a corresponding tax credit of £657,000. Group reserves brought forward at 1 October 2000 have also been restated, and reduced by £598,000. In respect of the year ended 30 September 2002, the change in accounting policy has resulted in an adjustment of £2,962,000 with a corresponding tax credit of £889,000.

21. Capital commitments

	Group	
	2002	2001
	£000	£000
Contracted for, but not provided	<u>3,817</u>	<u>4,173</u>

The Company had no capital commitments (2001: Nil).

22. Commitments under operating leases

Group	2002	2002	2001	2001
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
within one year	70	30	117	34
within two to five years	1,075	23	1,195	15
after five years	367	-	599	-
	<u>1,512</u>	<u>53</u>	<u>1,911</u>	<u>49</u>
Company	£000	£000	£000	£000
Operating leases which expire:				
after five years	184	-	184	-

23. Pensions

The Group has a defined contribution Group personal pension plan. Contributions to this scheme are charged to the profit and loss account as they fall due. The assets of this scheme are held separately from those of the Group in independently administered funds.

As a result of contractual arrangements with its public sector customers, the Group also maintain Inland Revenue approved defined benefit schemes which are funded by payments to independently managed funds, the assets of which are held separately from those of the Group. Contributions to these schemes are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Group.

Financial Reporting Standard ("FRS 17"), 'Retirement Benefits', was published in November 2000 and is effective for accounting periods ending on or after 22 June 2001. The standard sets out a three year time period for its full implementation although this is currently under review by the ASB. The second year of this transitional period, which applies to the group's year ended 30 September 2002, requires certain additional information to be disclosed, which is set out below in respect of the Care UK Local Government pension scheme (the "LG scheme"), which is a defined benefit scheme. The figures given do not form part of the group's Primary Statements and are a disclosure matter only. The Group has one other defined benefit scheme named CHS Pension and Life Assurance Scheme (1994). This scheme is immaterial and on 1 August 2002 the scheme actuary was instructed to commence winding up.

The date of the most recent actuarial valuation for the LG scheme on which the amounts in the financial statements are based was 1 April 2001. Employer contributions amount to £535,000 for the year ended 30 September 2002. The employer contribution rate in respect of future years is currently set at 23.4% of total pensionable salaries.

The principal actuarial assumptions used as at 30 September 2002 and 2001 are as follows:-

	2002	2001
	%	%
Rate of increase in salaries	3.75	4.00
Rate of increase in actual and deferred pensions	5.00	5.00
Discount rate	5.50	6.20
Rate of inflation	2.25	2.50

The assets and liabilities of the scheme and the expected rate of return on the scheme assets are as follows:-

	Expected return for 2002/3	Year ended 30 Sept 2002	Expected return for 2001/2	Year ended 30 Sept 2001
Equities	7%	<u>895</u>	7%	<u>343</u>
Market value of assets		895		343
Actuarial value of liabilities		<u>(1,295)</u>		<u>(475)</u>
Deficit in scheme		(400)		(132)
Related deferred tax asset		<u>120</u>		<u>40</u>
Net pension liability		<u>(280)</u>		<u>(92)</u>

An analysis of the amounts that would have been charged to operating profit for the year ended 30 September 2002 under full adoption of FRS 19 is as follows:-

	£000
Current service cost	530
Past service cost	-
Previously unrecognised surplus deducted from the past service cost	-
Gains and losses on settlements or curtailments	-
Previously unrecognised surplus deducted from settlements or curtailments losses	-
Total operating charge	<u>530</u>

An analysis of the amounts that would have been credited under full adoption of FRS 17 to other finance income for the year ended 30 September 2002 is as follows:-

	£000
Expected return on pension scheme assets	45
Interest on pension scheme liabilities	<u>(48)</u>
Net return	<u>(3)</u>

An analysis of the amounts that would have been recognised under full adoption of FRS 17 in the statement of total recognised gains and losses (STRGL) for the year ended 30 September 2002 is as follows:-

	£000
Actual return less expected return on pension scheme assets	(109)
Experience gains and losses arising on the scheme liabilities	3
Changes in assumptions underlying the present value of the scheme liabilities	<u>(164)</u>
Actuarial (loss) recognised in STRGL	<u>(270)</u>

The movement in the deficit during the year has been as follows:-

	£000
Deficit in scheme at beginning of the year	(132)
Movement in year:-	
Current service cost	(530)
Contributions paid by the employer	535
Past service costs	-
Other finance income	(3)
Actuarial (loss)	<u>(270)</u>
Deficit in scheme at the end of the year	<u>(400)</u>

The history for the year ended 30 September 2002 of experience gains and losses is as follows:-

	£000
Difference between the expected and actual return on scheme assets:	
Amount (£)	(109)
% of scheme assets	(12%)
Experience gains and losses on scheme liabilities:-	
Amount (£)	3
% of present value of scheme liabilities	<1%
Total amount recognised in STRGL:-	
Amount (£)	(270)
% of present value of scheme liabilities	<21%

24. Reconciliation of operating profit to cashflow from operations

	2002	2001 as restated
	£000	£000
Reconciliation of operating profit to cashflow from operations		
Operating Profit	7,929	7,007
Depreciation	2,520	2,158
Goodwill amortisation	500	443
(Profit) on disposal of fixed assets	(47)	(25)
(Increase)/decrease in stocks	(514)	68
(Increase)/decrease in debtors	(1,013)	29
Decrease/(increase) in creditors	558	(104)
Cash flow from operations	<u>9,933</u>	<u>9,576</u>

25. Analysis of net debt

	At 1 October 2001 £000	Cash flow £000	At 30 September 2002 £000
Cash in hand at bank	(2,259)	(618)	(2,877)
Overdrafts	2,350	(1,644)	706
	<u>91</u>	<u>(2,262)</u>	<u>(2,171)</u>
Debt due within one year	2,794	(1,536)	1,258
Debt due after one year	47,625	12,763	60,388
Finance leases	25	(25)	-
Net debt	<u>50,535</u>	<u>8,940</u>	<u>59,475</u>

26. Related party transaction

There were no related party transactions during the year.

27. Principal subsidiary undertakings

The following principal subsidiaries, which are all incorporated in Great Britain and operate within the United Kingdom, have been included in the consolidated accounts. All shares are directly held by Care UK Plc.

	Ordinary shares	Effective percentage holding	Nature of business
Care UK Community Partnerships Group Limited	4,813,106	100%	Provides specialist health care, intermediate care, social care and facilities management.
Care UK Mental Health Partnerships Limited	100	100%	Provides specialised nursing and residential care for adults with mental illness.
Care Solutions Limited	64,100	100%	Provides residential and supported living services, care and day activities, for people with learning disabilities.
Care UK Homecare Limited	300,000	100%	Provides carers to support people in their own home.
Direct Manpower Services Limited	2	100%	Provides specialist healthcare professionals.

A full list of all subsidiaries will be included in the company's Annual Return.

5 year record

	2002 £000	2001 £000	2000 £000	1999 £000	1998 £000
Turnover	97,794	81,239	66,932	51,046	41,184
Operating profit before goodwill amortisation	11,391	9,641	8,957	7,466	6,473
Profits before tax and revenue investment costs	7,838	6,647	6,560	6,262	5,457
Profit before tax after revenue investment costs	4,876	4,456	5,962	6,262	5,457
Undiluted earnings per share:					
Total before revenue investment costs	10.25p	9.17p	11.23p	11.71p	10.08p
Total after revenue investment costs	6.02p	6.01p	9.98p	11.71p	10.08p
Before goodwill amortisation and revenue investment costs	11.27p	10.08p	11.88p	11.71p	10.08p
Before goodwill amortisation and after revenue investment costs	7.04p	6.92p	10.61p	11.71p	10.08p
Dividends per share	2.55p	2.30p	2.10p	1.80p	1.50p

Notes

- 1 Buildings depreciation was first charged in 2000 following the implementation of FRS 15
- 2 Amounts for 1998, 1999 and 2000 have not been restated to show the effects arising from the implementation of FRS 19, Deferred Tax.
- 3 Amounts for 2000, 2001 and 2002 have been restated to account for revenue investment in development projects. Prior to this such costs had not been incurred.

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the shareholders of Care UK Plc will be held at Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex CO4 9QB on 27 January 2003, at 11:30am for the following purposes:

ORDINARY BUSINESS

RESOLUTIONS WILL BE PROPOSED

1. To receive and adopt the audited financial statements and the report of the directors for the year ended 30 September 2002.
2. To declare a final dividend of 1.70p per ordinary share for the year ended 30 September 2002.
3. To re-elect JAS Nash as director, being director who retires by rotation in accordance with Article 106 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
4. To re-elect RS Clough as director, being director who retires by rotation in accordance with Article 106 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
5. PJ Humphreys being an executive director appointed during the year retires and being eligible offers himself for re-election.
6. To re-appoint KPMG Audit Plc as auditors to the Company and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

RESOLUTIONS WILL BE PROPOSED

7. To consider and, if thought fit, pass the Resolution set out below which will be proposed as an Ordinary Resolution:

THAT the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot grant options over, offer or otherwise deal with or dispose of relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,636,119 provided that this authority shall expire on 30 April 2004 or the date of the next Annual General Meeting of the Company after the passing of this Resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. To consider and, if thought fit, pass the Resolution set out below which will be proposed as a Special Resolution:

THAT, subject to the passing of Resolution 5 above, the directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by Resolution 5 above as if Section 89 (i) of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

- (a) the allotment (otherwise than pursuant to subparagraph (b) below) of equity securities up to an aggregate nominal value of £245,418; and
- (b) the allotment of equity securities in connection with issues by way of rights in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlement or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever;

and shall expire on 30 April 2004 or on the date of the next Annual General Meeting of the Company after the passing of this Resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9. To consider and, if thought fit, to pass the Resolution set out below which will be proposed as a Special Resolution.

That the Company be and is hereby authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on The London Stock Exchange of its ordinary shares of 10p each ("ordinary shares") upon and subject to the following conditions:

- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,900,000 (being approximately 10 per cent of the ordinary shares in issue at the date of the passing of this Resolution);
- (ii) the maximum price at which ordinary shares may be purchased is, in respect of an ordinary share contracted to be purchased on any date, an

amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from The Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary share is contracted to be purchased and the minimum price which may be paid for such ordinary shares is 10 pence per ordinary share being the nominal value, in each case exclusive of any expenses and advance corporation tax payable by the Company; and

- (iii) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or at the expiry of 12 months after the date of the passing of this Resolution, whichever shall be the earlier, save that the Company may before such expiry enter into a contract or contracts to purchase ordinary shares under which such purchase or purchases may be completed or executed wholly or partly after the expiration of this authority.

BY ORDER OF THE BOARD
PJ HUMPHREYS
Secretary

Registered Office: Connaught House,
850 The Crescent, Colchester Business Park,
Colchester, Essex CO4 9QB
20 December 2002.

VOTING AND PROXIES

1. All holders of ordinary shares of 10p each in the Company are entitled to attend and speak at the meeting. A holder of ordinary shares of 10p each is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. Completion of the form of proxy will not prevent a holder of ordinary shares of 10p each from attending the meeting and voting in person.
3. The form of proxy to be valid must be lodged together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or other authority, at Computershare Services Plc, P.O. Box 1075, Bristol BS99 3FA, not later than 48 hours before the time of the meeting or adjourned meeting.

4. In the case of an individual, the form of proxy must be signed by the appointor or by his/her attorney duly authorised in writing.
5. In the case of a corporation, the form of proxy must either be executed under its common seal or under the hand of a duly authorised officer or attorney.
6. In the case of a joint holder, the vote of the first named holder on the register of members (whether voting in person or by proxy) will be accepted to the exclusion of the votes of the other joint holder(s) in respect of the joint holding.
7. Any alteration in the form of proxy must be initialled.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the service contracts between the Company and the directors of the Company as well as the register of interests of directors and their families in the capital of the Company, will be available for inspection at the registered office of the Company, Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex CO4 9QB, during business hours on any weekday from the date of this notice until the close of the meeting and also at the venue of the meeting for 15 minutes prior to and throughout the meeting.

EXPLANATORY NOTE REGARDING THE SPECIAL BUSINESS

1. At the Annual General Meeting of the Company held on 28 January 2002, the directors were authorised for the purposes of section 80 of the Companies Act 1985 to allot relevant securities up to an aggregate nominal value of £1,634,668. That authority will expire at the conclusion of the forthcoming Annual General Meeting. At this year's Annual General Meeting, an Ordinary Resolution (Resolution 5) will be proposed to grant the directors authority under section 80 of the Companies Act 1985 to allot relevant securities up to the maximum aggregate nominal amount of £1,636,119 representing one third of the total share capital of the Company in issue as at the date hereof. The directors have no present intention of exercising that authority. The authority to allot up to £1,636,119 nominal aggregate value of relevant securities to be conferred pursuant to Resolution 5 will lapse on 30 April 2003 or on the conclusion of the next Annual General Meeting of the Company after the passing of such resolution, whichever is the earlier.

2. At the Annual General Meeting of the Company held on 28 January 2002, the directors were empowered for the purposes of section 95 of the Companies Act 1985 to allot equity securities which are to be paid up in cash as if section 89(1) of the Companies Act 1985 did not apply to any such allotment for the purposes, inter alia, of the allotment of equity securities for cash up to an aggregate nominal value of £245,200 otherwise than by way of rights. That authority will expire at the conclusion of the forthcoming Annual General Meeting. At this year's Annual General Meeting, a Special Resolution (Resolution 6) will be proposed to empower the directors to allot equity securities for cash pursuant to the authority conferred upon them by Resolution 6 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that such power will be limited to the allotment of equity securities in connection with rights issues (as described in Resolution 6) and the allotment of equity securities up to an aggregate nominal value of £245,418, representing approximately 5 per cent of the total ordinary share capital in issue in the Company as at the date hereof. The authority will terminate no later than 15 months after the passing of the Special Resolution.
3. Resolution 7 authorises the Company generally to make purchases of its own shares, as permitted by the Companies Act and The London Stock Exchange Listing Rules. The directors will only exercise this power of purchase in circumstances which, in the opinion of the directors are expected to result in an improvement in earnings per share for the remaining shareholders and all such purchases will be made through The London Stock Exchange.





Registered in England Number 1668247.

Registered Office: Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex. CO4 9QB

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