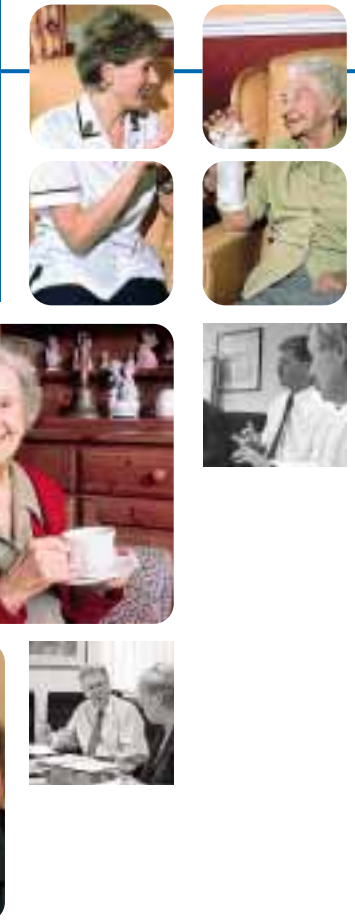


Care UK Plc annual report and accounts 2003



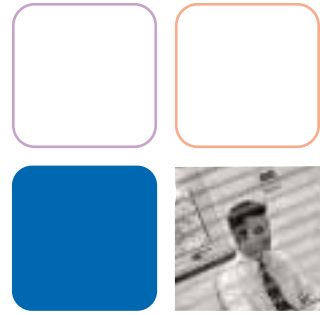
Personal & Professional Care solutions



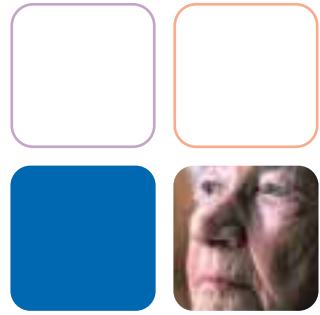
Care UK Plc is a specialist care outsourcing business working in partnership with the NHS and Social Services, providing health and social care solutions for the elderly, the mentally ill, adults with learning disabilities and children.

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market overview



Personal & Professional Care solutions



thinking professionally and personally



Demography and changing disease patterns

The UK population is growing and ageing. Whilst total growth of 7.5% is expected over the next 25 years, the number of the very elderly (85+) will increase by more than a third. Studies have shown that at least 75% of those over 65 years old have at least one chronic condition (such as heart disease or diabetes) with more than 50% suffering two or more. This will necessitate a shift in the paradigm of care with an emphasis on pro-active multi-disciplinary care across health and social care professionals.

There is a growing realisation that investment solely in treating illness and disease will not deliver sustainable improvements in health. Securing good health for the whole population is about achieving a balance between investment in treatment and prevention. Greater emphasis is likely to be placed on solutions that focus on causes of ill health including lifestyle issues (for example diet, exercise and smoking) and wider determinants of health, such as education, employment and housing.

Health and social care spending and public expectations

Over the 2003-08 period, the average increase in NHS spending will be 7.4% each year above inflation. This translates to extra funding of £34 billion by 2008, taking total NHS expenditure in the UK to £109 billion,

with 75% of spend allocated directly to the commissioning of services by Primary Care Trusts.

Over the next three years spending on personal social services will increase by 25% to £15 billion. Nearly two thirds of current spend is for elderly care and children's services.

We are now living in an era of consumerism. The public want quicker access, higher quality and, more importantly, a greater degree of choice. Future generations of older people will have lived very different lives to those of their parents and grandparents and accordingly will have greater expectations of health and social care.

Choice and plurality of providers

The government is seeking to increase capacity, efficiency and patient choice by engaging private sector companies in the provision and management of NHS and Local Authority funded services. The commissioning of Independent Sector Treatment Centres represents a significant step in this strategy.

This plurality is underpinned by an enhanced regulatory framework through the establishment by April 2004 of the Commission for Healthcare Audit and Inspection (CHA) and the Commission for Social Care Inspection (CSCI) as independent bodies to review clinical governance and quality of service provision.

Changing models of care

The NHS employs 1.25 million people and the social care sector a further million, yet there is an acute shortage of health and social care professionals. This is driving a fundamental rethink about how staff are recruited and deployed in the delivery of services to utilise expertise to maximum effect.

A more rapid diffusion of existing and new technologies will not only improve patient outcomes, but will also enable new ways of working. NHS policy now favours a shift from hospital to primary care services, provided as locally as possible and increasingly at home. A similar trend is evident in social care where local authorities increasingly look to favour homecare solutions alongside care provided in residential and nursing homes.

Intermediate care

The government recognises that a lack of high quality residential and nursing care and underdeveloped intermediate care services have contributed significantly to inappropriate admissions to, and delayed discharges from, acute hospitals. From January 2004, the Community Care (Delayed Discharges) Act, will incentivise closer partnership between the NHS and local authorities to develop solutions involving innovative combinations of residential and community care.

Mental health and learning disability

The development of mental health services is one of the top three clinical priorities for the government with joint responsibility placed on health and social services to deliver a clear and comprehensive plan for mental health service improvement. Set out in the National Service Framework for Mental Health and the NHS Plan, are key targets which will require health and social services to work together, and in partnership with the independent and voluntary sectors. Significant additional investment has been made available by the government to support delivery and it is this that should see change delivered in the way people with mental health needs access and receive the support they need.

The government's agenda for people with a learning disability has been set out in "Valuing People" published by the Department of Health in 2001. At the heart of this strategy are the four key principles of rights, independence, choice and inclusion. The aim is to provide people with a learning disability the same rights and opportunities as others in the least restrictive environment possible.



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“Care UK has seen a step change in market position during the year through the new ISTC contracts, allowing the group to enter the acute care market at a time when the Government is seeking to involve the private sector in the delivery of NHS acute care”.

Highlights for the year

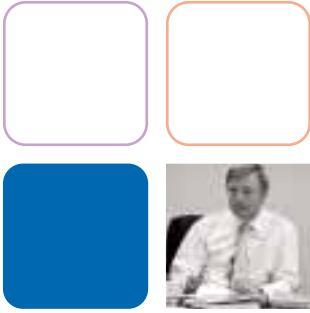
	Results before revenue investment costs			Total results	
	2003 £000	2002 £000	Change	2003 £000	2002 £000
Turnover	108,149	97,794	+10.6%	108,149	97,794
Operating profit*	13,340	11,391	+17.1%	10,343	8,429
Profit before tax*	9,869	8,338	+18.4%	6,872	5,376
Profit before tax	9,265	7,838	+18.2%	6,268	4,876
Earnings	6,228	5,028	+23.9%	4,130	2,955
Basic earnings per share*	13.79p	11.27p	+22.4%	9.54p	7.04p
Dividends:					
Final	1.90p	1.70p	+11.8%	1.90p	1.70p
Total	2.80p	2.55p	+9.8%	2.80p	2.55p

* before goodwill amortisation of £604,000 (2002: £500,000)

Care UK is pleased to report continuing good growth in turnover, operating profit and earnings.

- **Significant progress made both strategically and operationally:**
 - Preferred bidder appointments won by the group's joint venture company, Care UK Afrox Healthcare, for three Independent Sector Treatment Centres (“ISTCs”); the group's share of the joint venture totals some £22m of annualised turnover
 - Acquisition of Corvedale Holdings in September 2003 provides the foundation for major development in the children's services sector
 - New contracts during the year
 - Residential: Islington and Hillingdon extension contracts signed
Hammersmith & Fulham, Croydon contracts in final stages of approval
 - Community: New contracts or extensions in East Dunbartonshire, Aberdeen, Argyll & Bute, Leicester, Lambeth, Sheffield and Birmingham
- **Final revenue investment in development projects of £3.0m (2002: £3.0m) – change programme now successfully completed. No more such costs to be incurred**
- **Total forward contracted turnover as at 30 September 2003**
 - Residential Care Services £534m
 - Community Care Services £37m
- **Current indicative preferred bidder turnover value £263m, including the group's share of turnover from the ISTC joint venture**
- **Total Residential Care occupancy level continuing at around 98%**

“The group's future performance is underpinned by its solid base of existing projects, as well as new contracts coming through and ongoing organic growth in homecare. The group is confident that its robust business base combined with exposure to a dynamic market will provide excellent opportunities for further growth”.



chairman's statement

opportunities for growth

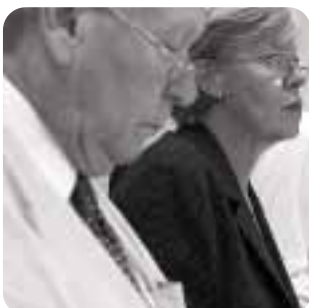
This has been a year of significant progress for Care UK both operationally and strategically, with the success in winning three Independent Sector Treatment Centres and the move into children's care following the acquisition in September 2003 of Corvedale Holdings.

Turnover increased by 11% at £108.1m (2002: £97.8m). Before the final revenue investment costs of £3.0m (2002: £3.0m), operating profit was £13.3m (2002: £11.4m), up 17%, and pre-tax profit before goodwill amortisation increased by 18% to £9.9m (2002: £8.3m). On the same basis, earnings per share were 13.79p (2002: 11.27p), an increase of 22%.

During the year the group has enhanced its operational competence and the quality of service delivery, securing important new contracts in both Residential and Community Care, and emphasising Care UK's position as a partner of choice for both Primary Care Trusts and Local Authorities. In addition, we have completed the one-off change programme associated with the three long-term contracts at Surrey, Hillingdon and Richmond ahead of schedule and at a cost lower than originally forecast.

Contracts signed during the year represent annual revenue of £10m and our total forward contracted turnover now amounts to around £571m at current prices. Through organic growth and acquisition the group's homecare business, measured by the number of hours of care delivered, has grown this year by over 28%.

In January of this year we established a joint venture company with Afrox Healthcare Ltd, a major South African acute care provider. Consistent with our strategy to develop solutions for public sector outsourcing, this was planned in response to the Department of Health initiative to create new Independent Sector Treatment Centres ("ISTCs"), previously known as Diagnostic and Treatment Centres. In September, the joint venture company was appointed preferred bidder to build and run three ISTCs in Plymouth, Trent/South Yorkshire, and Maidstone.





for our business and our *clients*

These projects will help to extend Care UK's partnerships with innovative Primary Care Trusts as traditional acute care services are increasingly being delivered as primary care solutions, taking people out of hospital to receive care more appropriately in the community.

In September the group acquired 75% of Corvedale Holdings, a Shropshire based provider of residential care, education and therapeutic activities for young people, which has preferred supplier agreements with many UK Local Authorities. Children's care is a high priority area for Social Services and this acquisition provides Care UK with significant opportunities to develop in this important sector further.

Strategy

It is important for Care UK to understand and participate in the evolution of the health and social care market, Government strategy and local needs. We believe that the public sector will continue to dominate the funding of health and social care, but that there are demonstrable benefits of working with private sector partners to deliver improvements in patient choice, cost efficiency and innovation.

Our strategy is to provide a broad range of contracted health and social care solutions to the NHS and Local Authorities. Each of these services will focus on complex needs where Care UK can provide significant added value and, therefore, generate attractive returns, particularly where a number of the solutions are integrated to provide a care pathway including acute, rehabilitation and therapy treatments, alongside longer term continuing care and support.

Board and employees

Richard Clough is to retire as Deputy Chairman, as planned, at the 2004 Annual General Meeting. Richard was Chief Executive from March 1994 until November 2001, when he became Deputy Chairman. He has played a central role in the success of Care UK, particularly in developing the company's relationships with public sector bodies. The Board is grateful to Richard and wishes him well in his retirement.

As previously announced, Graham Lomer, Business Development Director, left the group on 31 October 2003. The Board would like to thank him for his substantial contribution to Care UK.

On behalf of the Board, I would like to thank once again our staff, whose compassion and dedication continue to improve the lives of the people they support and care for. The development of our services is enabled by the quality of our operational performance and by the skill and innovation of our staff at all levels.

Dividend

The Board is recommending a final dividend of 1.90p per share (2002: 1.70p per share) giving a total dividend for the year of 2.80p per share (2002: 2.55p per share), an increase of 10%. The final dividend will be paid on 6 February 2004 to all shareholders on the register on 9 January 2004.

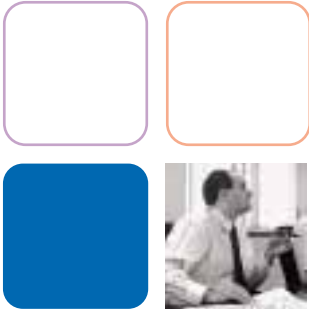
Over the long-term, we expect to follow a progressive dividend policy whilst maintaining a level of earnings cover appropriate to the group's continuing investment in the range of health and social care opportunities available.

Outlook

Care UK has seen a step change in market position during the year through the new ISTC contracts, allowing the group to enter the acute care market at a time when the Government is seeking to involve the private sector in the delivery of NHS acute care.

Care UK's future performance is underpinned by its solid base of existing projects, as well as new contracts coming through, both in our existing as well as the new businesses outlined above, and ongoing organic growth in homecare. The group is confident that its robust business base combined with exposure to a dynamic market will provide excellent opportunities for further growth.

John Nash
Chairman
12 December 2003



chief executive's report

consideration & innovation

Review of results

The results of the group are presented and commented on below based on the operational structure that was introduced in 2002.

Residential Care Services Year ended 30 September

	2003 £000	2002 £000	Change
Turnover	70,259	65,674	+7.0%
Operating profit *	11,495	10,264	+12.0%
Operating margin	16.4%	15.6%	
Average capital employed	64,945	58,976	
Return on capital employed *	17.7%	17.4%	

*before goodwill amortisation and revenue investment costs

Residential care showed good growth in both turnover and operating profit, reflecting price improvements as well as the implementation of new contracts. Operating margins rose by around 0.8%, benefiting from a full year of trading for both the Surrey contract and Tariro House, the opening of new homes in Middlesbrough and Reading, and a reduction in divisional overheads resulting from the reorganisation carried out in 2002. Overall occupancy across the division averaged around 98% over the year, similar to 2002. The division comprised a total of 2,716 beds at 30 September 2003 (2002: 2,676 beds), across 74 homes.

This improvement demonstrates the resilience of our partnership model as well as the opportunity we have to improve margins by increasing non-contract bed rates in line with the rising market. We anticipate further margin improvement as we implement changes in the use of a proportion of our beds to provide more complex care services.

In **Specialist Elderly Care**, results benefited from a full year's contribution from the Surrey contract and the newly constructed Woodside Resource Centre, with 60 beds (51 contracted), which was opened in Middlesbrough in December 2002. The construction of homes for the new Islington and Hillingdon contracts is in line with the planned timetable.





As part of the Surrey development programme, the total redevelopment of the Whitebourne home in Frimley was completed on time in January 2003. Whitebourne is a residential home for the elderly mentally ill with a total of 63 beds, of which 39 are included in the Surrey contract.

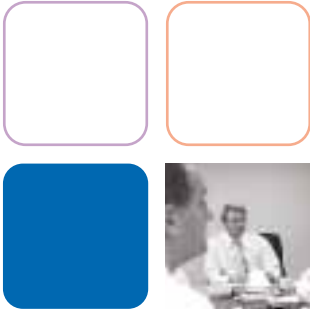
A major extension was developed at Laurel Dene in Richmond adding 62 beds and to complete the Richmond project we are developing two new homes at Whitefarm Lodge and Greville House comprising 124 beds in total, due to open in August 2004 and August 2005 respectively, facilitating the closure of homes and disposal of land during 2005 at Craig House and Gifford House.

Performance in **Mental Health Care** was assisted by a full year's contribution from the Tariro House contract; this contract, for 10 beds of the total of 16 in the home, commenced in June 2002. The small disposal programme initiated during the year resulted in the sale of four non-strategic mental health homes. Opportunities for utilising the as yet unopened 20-bed mental health facility at the Woodside Resource Centre in Middlesbrough are currently under review. The newly constructed high dependency Rosebank nursing home in Reading was opened in July 2003, with a total of 12 beds, all contracted to Berkshire Healthcare NHS Trust for 10 years.



in everything we do





chief executive's report continued

delivering solutions

Performance in the residential element of the group's **Learning Disabilities Services** business improved significantly compared to 2002. As the preferred model of care for this type of service is typically supported living, included within the Community Care Services division, profit growth resulted principally from more effective management of the various facilities, with turnover at a similar level to 2002. The closure of one home, as part of the disposal programme, has improved occupancy levels and allowed for more efficient staffing. No new facilities were brought into service during the year.



New contracts

In March 2004 we expect to open a new care home for the elderly with 66 beds at Franklin House in Hillingdon and the first of two new care homes for the elderly in Islington, with 60 beds, with the second home due to open around October 2005, with 52 beds.

Contracts are now in the final stages of approval with the London Borough of Hammersmith & Fulham and with Croydon Primary Care NHS Trust. Whilst formal approval will now occur later than previously indicated, this only reflects the public sector procurement process. Under the Hammersmith & Fulham contract we are to build and run two new elderly care homes with a total of 158 beds, of which 130 will be contracted, as well as 32 sheltered housing units. Capital investment for this project will be in the order of £10.5m and the timetable to opening will be around 12 months for the first home and a further 6 months for the second. This innovative project will provide for a care continuum including homecare





for today and tomorrow

services in the sheltered housing units (known as “extracare”), day care and rehabilitation services (including hydro-therapy pools), respite care beds, and high dependency nursing beds. The purpose is to avoid hospital admissions and to enable an independent living strategy, allowing people to remain in their own homes for as long as possible. Should care needs become greater over time, the transition into a higher dependency bed is eased by the resident’s familiarity with the centre.

Under the Croydon contract we are to build and run a community forensic hostel with 12 beds, all contracted for 5 years, with capital investment of around £1.5m. The build programme will be around 12 months. The hostel will provide high dependency services for adults with severe and enduring mental health needs and associated offending behaviour. The service will facilitate the transition of patients from secure units and has a long-term aim of enabling a return to independent living.

Community Care Services

<i>Year ended 30 September</i>	2003	2002	
	£000	£000	Change
Turnover	37,890	32,120	+18.0%
Operating profit *	3,388	2,626	+29.0%
Operating margin	8.9%	8.2%	
Average capital employed	10,025	8,195	
Return on capital employed *	33.8%	32.0%	

* before goodwill amortisation

The Community Care division also showed strong growth in the year. These results include a contribution of just over 8 months from Premiere Homecare, acquired in January 2003, which yielded £0.9m of turnover and £0.4m of operating profit. Organic growth was therefore 15.3% in turnover and 14.3% in operating profit. At 30 September 2003 the Homecare business was delivering around 56,700 hours of care per week (30 September 2002: 44,100), including around 10,000 hours per week from Premiere, and the

Learning Disabilities business was providing care to 342 supported living service users (30 September 2002: 270 service users).

In **Homecare** we targeted increased organic growth and strengthened the management structure accordingly. Whilst the 2002/03 year does not fully reflect the benefits of this investment, we are pleased to report a run rate of activity at the end of the year some 6% higher than the prior year comparison on a like-for-like basis. Notable contract wins or extensions were gained in Sheffield (extra 650 hours per week), Lambeth (extra 350 hours per week) and an ‘extracare’ scheme for Birmingham City Council (250 hours per week). With the addition of Premiere, total hours growth was over 28%. The integration of the Homecare management structure with that for Supported Living also resulted in divisional overhead savings.

Within **Supported Living** significant growth was achieved mainly through the commencement of new services in Argyll & Bute (47 service users), Aberdeen (8 service users) and Uttlesford in Essex (28 service users).

The group’s **Specialist Recruitment** business performed broadly in line with the previous year. This performance should be considered in the context of the NHS’ procurement strategy to establish a framework of centrally approved recruitment agency providers. Our niche business focused on consultant psychiatrists is not currently part of the framework and we are reviewing opportunities to develop this business as a specialist provider working alongside or, in due course, within the National Framework.



chief executive's report continued

delivering solutions

Children's Services

The group entered the children's services market by acquiring 75% of Corvedale Holdings in September 2003. Corvedale is a specialist provider of residential, educational and therapeutic services to young people, in the 11 to 17 years age range, through a mix of care models. Based in Shropshire, the business is highly regarded and has preferred supplier relationships with over 80 Local Authorities.

Typically, admission is to Corvedale's crisis and assessment centre, an "outward bound" oriented centre on the Welsh borders, for up to 13 weeks. Thereafter, the youngsters will either return home, transfer to a residential care unit, or to Corvedale's specialist school in Ludlow. Here, they will continue to receive therapeutic support as well as teaching specifically tailored to maximising their level of potential. Through a very high level of added value service, Corvedale is able to obtain fee rates substantially higher than those typically available in the group's existing residential care business.

The children's services market is valued at around £3.2bn and is still highly fragmented. Corvedale is a high quality entry point for Care UK to develop a substantial business in this exciting sector. Corvedale's management team, who are remaining with the business, have established a robust and high quality service infrastructure and are now ready to grow the business significantly, initially optimising capacity in existing facilities and extending services in the Shropshire heartland, to be followed by expansion into other regions. Now that





for the young and the old

Corvedale has a strong and rigorous operational base, we will target further growth through acquisition, although given the relatively nascent structure of the market this will be opportunity dependent.

As Corvedale was acquired virtually at the end of the group's financial year, the 2003 results include no trading contribution from this business.

Independent Sector Treatment Centres (previously DTC's)

In anticipation of the Government's strategy to create new acute surgery capacity, a joint venture company was formed with Afrox Healthcare Ltd ("Arox") in January 2003. Afrox is a substantial acute hospital company, based in South Africa, operating over 7,500 acute care beds and 10,000 chronic care beds. The interim name for the joint venture company is Care UK Afrox Healthcare ("CUAH"). The joint venture is supported by Alliance Medical, Europe's leading provider of diagnostic imaging services, supporting over 150 NHS and independent hospitals in the UK.

The Department of Health bidding process required 'additionality' of healthcare professionals to avoid the ISTCs denuding existing NHS staffing capacity. The partnership with Afrox provides access to a substantial pool of experienced and proven clinicians and nurses from South Africa.

In December 2002, the Department of Health initiated a procurement project to commission a first wave of ISTCs. CUAH submitted bids for nine projects and was appointed preferred bidder for three ISTCs with Primary Care Trusts in Maidstone, Plymouth, and Trent/South Yorkshire.

The aggregate annual turnover of CUAH for the three centres is anticipated to be around £45m and capital investment is expected to be approximately £35m. The service to be provided is diagnostic investigation and routine surgery for otherwise well patients, with a strong emphasis on orthopaedic surgery. CUAH has developed innovative care pathways, with extensive community based rehabilitation, to facilitate shorter periods of in patient stay.

The Trent/South Yorkshire project is likely to be preceded by a separate interim contract to commence in January 2004. The commissioning dates of the three permanent projects are currently expected to be the latter part of 2004 for Plymouth, the middle of 2005 for Trent and the latter part of 2005 for Maidstone.

Strategy for growth

The group's continuing success will reflect the ability to design and deliver solutions that meet purchaser and user needs in terms of quality, innovation and efficiency. In recognition of this, we have increased focus on operational rigour and solutions design flair to develop a broad base of related health and social care services.

The ISTC project in particular represents a highly significant opportunity for Care UK to become a credible provider of acute and extended care pathway services at a time when the Government and Primary Care Trusts are setting out to involve the private sector more substantively in the provision of such services. The NHS acute care market is valued at around £35bn per annum, with a further £12bn expenditure in primary care. Clearly, significant transition of services to be delivered by the private sector will represent material opportunity for early mover companies, such as Care UK.

Growth is therefore targeted to reflect the strategies of Primary Care Trusts and Local Authorities to treat and support people in a secondary care or independent living environment, avoiding non-essential hospital admissions and stays, with particular emphasis on the management of chronic disease. As we develop these models of care we would expect margins to improve to reflect the greater complexity and value of these services to commissioners.

Mike Parish
Chief Executive
12 December 2003



working together for a healthy

Results for the year

The group results, set out in the consolidated profit and loss account, show operating profit before revenue investment in development projects ("RIDP") and goodwill amortisation, of £13.3m (2002: £11.4m). Profit before tax, RIDP and goodwill amortisation was £9.9m (2002: £8.3m), and earnings per share on the same basis were 13.79p (2002: 11.27p). Overall profit before tax was £6.3m (2002: £4.9m).

Revenue investment in development projects

Having moved in 2002 to a more transparent accounting policy relating to the change and temporary excess operating costs associated with the group's three long term outsourcing contracts (Hillingdon, Richmond and Surrey), classifying such costs as RIDP in the group's accounts, a series of actions intended to complete the change programmes associated with these contracts was initiated in the first half of the 2003 financial year. This has resulted in the completion of the various change programmes up to four years earlier, and at a cost around £2.4m lower, than originally planned.

The final change programme required a net revenue investment of £3.0m in the current year (2002: £3.0m). This amount reflects the receipt by the group of its share of the disposal proceeds of the first surplus site released by the ongoing development programme, in Hillingdon. Further proceeds will be received from the disposal of the sites that will become surplus once the Richmond redevelopment is complete, in around two years time. The cumulative RIDP cost at 30 September 2003 amounts to £8.8m, and is expected to reduce to around £5.7m once the final proceeds are realised.

No such costs will be incurred by the group in the future.

Central costs

Total central costs in 2003 were £1.5m (2002: £1.5m). Having invested significantly in strengthening the management of the business during 2002, the level of central costs has broadly remained the same in 2003 as in the previous year.

Joint venture

The group formed a joint venture company with Afrox Healthcare Ltd earlier in the year to bid for ISTCs and has been appointed preferred bidder on three such contracts. Until the award of preferred provider status the joint venture partners had agreed to carry their respective shares of the costs associated with the bidding process. Since the award of preferred provider status the joint venture has become responsible for directly attributable costs associated with these projects, although the partners are still carrying an element of cost related to the projects. Accordingly, whilst the 2003 results include a small negative contribution of £4,000 from the joint venture this amount has not been separately disclosed, as it is immaterial to the group's results. The resources of the joint venture have been added to significantly since the year-end as the demands on the project teams have risen greatly.

Tax

The headline rate of taxation on pre-tax profit was 34.1% in 2003 (2002: 39.4%). The principal reason for the overall tax rate being higher than the standard rate is the disallowance of the majority of the group's capital investment for capital allowance purposes. The rate has reduced in 2003 primarily as a result of more detailed effort to identify qualifying expenditure where appropriate. The better indicator for tax-related cash flow purposes is the level of current tax actually payable, measured against profit before goodwill amortisation, since historically the majority of goodwill amortisation has not attracted tax relief. In 2003 this rate is 28.4% (2002: 27.1%), excluding RIDP in both years as being non-recurring. This rate is below the standard corporation tax rate of 30% mainly because, where capital allowances are available, they are predominantly given at a rate in excess of the applicable depreciation rate.

Cash flow, net debt and funding

Group net debt increased during the year by £3.5m to £63.0m. The principal outflow related to further investment in the construction of new residential homes and the completion



Future

during the year of the change programme, giving rise to the RIDP costs.

Cash inflow from operations, excluding RIDP, was £14.0m. This represents 105% of earnings before goodwill amortisation ("EBITA") measured on the same basis. After taking account of RIDP costs, cash generated from operations was £11.0m.

Gross capital investment during the year amounted to £8.9m, of which over 90% was invested in the construction of new homes. The current new homes programme will result in the construction of 178 new beds over the next 18 months. During the year a total of eleven properties were identified for disposal, six resulting from contract expiry and the balance due to under-performance of the related business. Of these, eight were disposed of during the year for net proceeds of £2.2m with the remaining three properties expected to be disposed of in the next 12 to 18 months. The aggregate net book value of the properties concerned, at 30 September 2002, was £2.9m and the overall programme is expected to result in a broadly break-even outcome.

A total of £2.7m was spent on acquiring businesses. Of this amount, £0.8m related to Premiere Homecare, acquired in January 2003, and £1.9m to Corvedale Holdings, acquired in September 2003. An amount of £1.0m was also paid in respect of Corvedale in the form of newly issued ordinary shares. Further maximum consideration of up to £4.2m could become payable for these two acquisitions over the next 24 months dependent on the performance of the acquired businesses. Of this amount, around £2.4m would be payable in cash with the balance being payable through the issue of further new Care UK ordinary shares.

Net stakeholder payments, comprising interest, tax and dividends less proceeds from share issues absorbed a further £4.3m. The revised accounting policy on RIDP costs contributed to a significantly lower tax-related cash outflow through the repayment of around £0.8m of tax paid in earlier years. This will not recur in future years.

Group borrowing facilities at 30 September 2003 amounted to £76.3m, comprising term loans of £48.3m, a £25m 5-year evergreen Revolving Credit Facility and £3.0m of overdraft. The group is currently documenting an extension in its mainstream borrowing facilities of £12.5m, rather than the amount of £25.0m advised at the time of the interim results in May 2003, since the majority of the funding for the ISTC projects is now being proposed on a non-recourse basis direct to the joint venture company. This additional facility will require the group to observe the same covenants as previously applied. The margin payable on the additional £12.5m tranche of funding will be around 0.25% higher than the group's existing borrowings.

Shareholders funds at 30 September 2003 were £41.2m (2002: £36.5m), and group gearing at the year-end was 153% (2002: 163%).

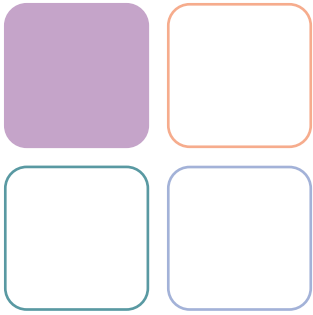
LTIP scheme

At the Extraordinary General Meeting held on 31 July 2003, the group's shareholders voted to approve the proposed Long Term Incentive Plan. In total, awards have now been made over 339,351 shares, which will vest following the announcement of the group's 2006 results subject to the specified performance targets being met. At 30 September 2003 the group's Employee Benefit Trust, created to provide the shares against the awards made, held 357,580 ordinary shares of the company, representing 0.71% of the issued ordinary share capital. Dividends on these shares are waived by the EBT.

Earnings and dividends

Underlying earnings per share, before goodwill amortisation, were 13.79p (2002: 11.27p), an increase of 22.4%. Total dividends for the year, paid and proposed, amount to 2.80p (2002: 2.55p), an increase of 9.8%. The final dividend will be paid on 6 February 2004, to shareholders on the register as at 9 January 2004.

Paul Humphreys
Finance Director
12 December 2003



case studies

effective service transfer

Rosebank House is 12 a bed independent hospital developed in partnership with Berkshire Healthcare NHS Trust to provide 24-hour nursing care for people with severe and enduring mental health problems. Its development was part of a reprovision programme coinciding with the closure of Fair Mile Hospital, which was built in 1870 and finally closed its doors on 30 April 2003.

Having worked in the NHS for 17 years, the news that the ward that I managed was to be reprovided by the independent sector was a great shock.

Once Care UK had been selected as preferred partner, I was invited to be part of the joint project group. I had feelings of doubt and distrust towards the private sector and it felt strange knowing that Care UK were to be my future employers. Being on the project team however, enabled me to experience first hand how complex and lengthy the process of commissioning a new service is.

We faced many hurdles including a complex TUPE agreement, an arduous process to achieve planning permission, anxieties for both staff and residents and finally a three month delay in completion. However, as the project progressed I began to gain confidence in my 'new colleagues' at Care UK and respect for their competence at dealing with the various issues that arose.

The project seemed to be on target for a March 2003 opening, when the bombshell hit. The architects had discovered that the site had soil contamination and would have to be replaced before building could start. This meant a three month delay, causing an immediate crisis as Fair Mile was due to close on 30 April, meaning we had to find somewhere for the residents to live until the new home was ready. Fortunately, luck was on our side and there was an empty ward at the new Prospect Park Hospital in Reading. However, organising two moves within a ten week period meant a great deal of added pressure for the whole team.



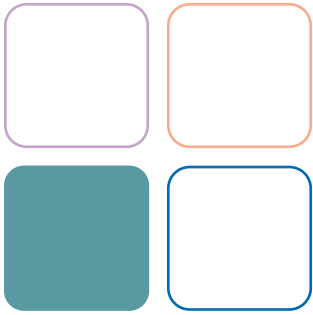


For whatever reason, the temporary move to Prospect Park proved to be pivotal in keeping the nursing team together and helping people make the decision to transfer to Care UK. By this time the building of the new home was well underway and I suggested that any 'doubters' should go and see it for themselves. It wasn't long before my transfer list had grown from seven staff to thirteen.

Finally, on 24 July 2003, Rosebank House opened and admitted its first residents. Six months on the residents seem to have settled in well to their new home and seem happy to be here. The staff who are a mixture of TUPE transfers and Care UK appointed staff are gelling well as a team.

After all the initial misgivings that many of us had two years ago, there is a general feeling amongst the team that this is a good place to be and that the decision to transfer was the right one.





case studies



making up for lost years

James Lappin (known to his friends as Jim) walks slowly down the garden path on the arm of his support worker. He's enjoying the day as he shuffles the leaves out of his way. Giving one of his huge infectious grins to a neighbour who greets him, he might be any other frail pensioner out for a breath of fresh air.

There's no outward sign that this 92-year-old man was shut away at the age of fifteen and lost 72 years of his life to institutions.

Jim was slightly handicapped by cerebral palsy as a child and was slow at school, having difficulties with reading and writing. Government policy at that time was to send people with learning difficulties to an institution.

Jim finally left the institution, Lennox Castle in 1997 for a ground-floor flat in Baillieston where he now receives 24-hour care from Care UK.

He sometimes reflects on his lost years, but he bears no grudges. Jim's just happy to be free to step out of his home whenever he has a mind to, to sit by his own fireside, and to eat and drink what he wants to, and not to someone else's timetable.

Mark King, his senior support worker from Care UK says: "Jim's more interested in the present and when you get to know him you realise what a sense of humour he has. Jim is a very positive person, always laughing and full of enthusiasm. He's an inspiration to everyone who works with him."

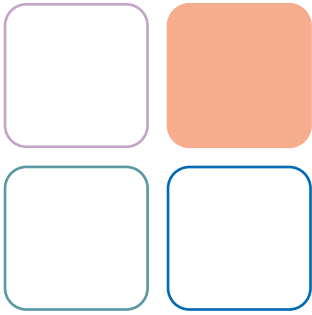
His flat is beside a busy road and he loves to look out of the window and see what's going on, or sit in the garden and greet passers-by. He's a popular man locally.

"He's like a magnet and become very much part of the community," says Margaret McKenna, a support worker who has watched him relax into his new life.

There are outings to the cinema or a car run to the seaside. He has also been on a 'plane for the first time – on holidays to Dublin and Majorca with his support workers.

The contrast between the life Jim led for 72 years, first at the Royal Scottish National Hospital in Larbert and then at Lennox Castle, and the life he is leading now could hardly be greater.

Today, he has his house with his own bedroom, decorated in his favourite green with cheerful furnishings. He is wearing his own clothes – and they fit, that may sound strange, but he never had his own clothes before. He can switch on his wide screen TV and video whenever he likes and relax in front of his favourite soaps. The fridge and freezer are well stocked and he can have a snack any time he likes. Best of all, for the first time since he was a boy, he has been able to call somewhere home.



case studies



toilets, tears and transport,

all in a day's work

As a care worker for the 'Home from Hospital' scheme in Poole, my first call today is at 07.30 when I visit Connie, who arrived home from hospital yesterday evening following hip surgery. She has unfortunately been in hospital for some time and I aim to help her settle down again as quickly, and safely, as possible.

When I arrive Connie is still in bed and finding it difficult to get out. Having assisted her out of bed, I offer to make the bed and tidy up while she washes. Connie explains she is experiencing difficulty using the toilet, because it is too low. I suggest she might benefit from an elevated toilet seat, as well as some raisers for her bed and armchairs and offer to arrange these for her. Connie is pleased, and I can see that by helping her to overcome these minor issues she will soon be able to manage very well on her own.

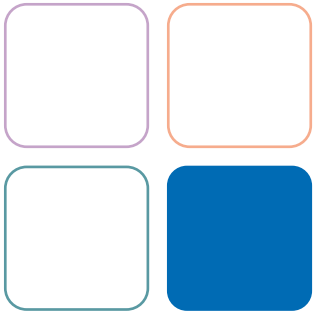
My next client, Albert has a terminal illness, and we aim to help him to stay at home, with his family, for as long as possible. I have been visiting for more than three weeks now and Albert and his wife, Mavis have come to know me quite well. I assist Albert with his personal care, including helping him to dress and move downstairs for the day. I stay a little over my allocated time with Mavis who is tearful today, due to feeling helpless, it is clear that she needs our support as much as her husband does.

After leaving Albert and Mavis, I telephone the office, requesting an occupational therapy visit for Connie to ensure she receives the elevated toilet seat and raisers, and to report that Mavis needs some extra support. Care UK's office staff will contact the Social Services care manager and the Macmillan Unit support team.

I move on to visit Jahinder, who was involved in a car crash several years ago and suffered a spinal injury. Jahinder lives in a specially adapted flat, and enjoys being as independent as possible. He has a call every morning to help him shower and dress but otherwise manages everything himself.

My final call is to Donald who is being discharged from hospital today. When I turn up to collect him he is a little disorientated, but soon remembers me from my visit yesterday. I take him home, make sure that the heating is working, the beds are made and everything is clean and tidy. I also go shopping to make sure that he has the basic essentials, finally, with Donald's consent, I inform his doctor that he is home and relay the message that the doctor will visit after morning surgery.

My shift finishes soon after 2pm and despite being a busy morning, I feel rewarded by every minute of it.



case studies



It's all turned out for **the best..!**

Mum moved in with us following a fall and then a stroke, she wasn't coping on her own anymore. Mum was worried that she would get in the way, and that it wouldn't be fair on my husband or our sons, but we were happy to have her there – it made it so much easier to look after her.

For a while it worked out, we turned our dining room into a bedroom and Mum settled in fine. We had the support of some homecare people every day and twice a week Mum went to a day care centre, which meant I could continue working.

But it got more and more difficult, Mum hated feeling like she was in our way, but it got harder to leave her on her own. She also wasn't comfortable with me attending to her personal needs and hated Bob and the boys seeing her in a state. She couldn't go through the night without needing me and we found ourselves visiting the hospital more often.

One day Mum just quietly said that she would rather be in a home. I was very upset but could see it would be best for Mum. So we talked to the Doctor and Social Services and they arranged for us to visit Laurel Dene.

I must admit, I expected a smelly old place with unfriendly staff, but I was completely wrong, it's a brand new building and really light and airy. Mum was a bit worried that she would be sharing a bedroom, sit around watching telly all day, or be made to play Bingo, so she was really pleased when she saw how nice it was.

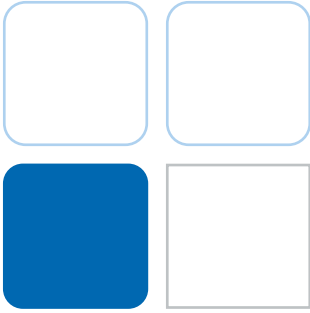
She has her own room and took a few bits of her own furniture with her. She's even got an en-suite bathroom for the first time in her life! There are several different lounges and quiet rooms she can use when she wants company, or a change, and it's so easy for her family and friends to visit.

The staff are brilliant and she doesn't do anything unless she wants to. She still looks after herself as much as she can, but has help to get dressed and for some of the personal stuff. Everything is there for her – nurses, physiotherapists – and the Doctor visits quite a bit too.

Mum's keyworker is called Maggie and they get on really well. I was amazed that within a few weeks Mum was doing things she hadn't done for years – like puzzles and painting. She's even made beautiful Christmas decorations for all of us this year!

I still feel guilty sometimes, but when I think back to how tough and upsetting it had become for all of us I know Mum is better off there. The most important thing is that she feels more independent and less of a burden. She feels at home!





biographical details of directors



John Nash, 54

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, 57

qualified as a chartered accountant and after a career in the textile industry joined the Company in 1987. As chief executive, from 1994 until 2001, he led the creation of Care UK's particular healthcare strategy. He was appointed Deputy Chairman in 2001. Richard is Chairman of Medscreen Ltd and the Regard Partnership Ltd. He has acted as Deputy Chairman of Care Malta Plc since 1994 and is also a non-executive Director of Hallmark Healthcare Ltd. Richard will retire from the Board at the 2004 Annual General Meeting.



Mike Parish, 44

has extensive managerial experience in the service sector and in outsourcing. He 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. In 1999 Mike 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, 45

qualified as a chartered accountant at Ernst & Whinney and then spent 3 years in ICI's Mond Division. He joined Care UK from McLeod Russel Holdings Plc where he was Group Finance Director for almost 10 years. 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.



Lesley James, 54

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 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.



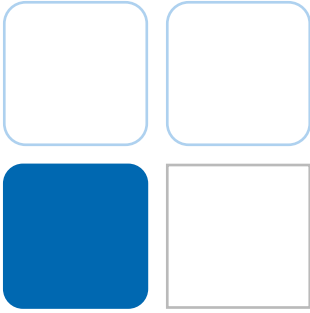
Sir Tim Chessells, 62

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, 59

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.



directors, executive committee and advisors

Directors

John Nash ^N	Non-Executive Chairman
Richard Clough	Non-Executive Deputy Chairman
Mike Parish ^N	Chief Executive
Paul Humphreys	Finance Director
Sir Tim Chessells ^{ARN}	Non-Executive, Chairman of the Audit Committee
Lesley James ^{ARN}	Non-Executive, Chairman of the Remuneration and Nomination Committees
Fritz Ternofsky ^{ARN}	Senior Independent Non-Executive

^A – member of the Audit Committee

^R – member of the Remuneration Committee

^N – member of the Nomination Committee

Secretary and registered office

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

Executive committee

The group Executive Committee meets monthly, is chaired by the Chief Executive and comprises the Finance Director and the following senior executives:

Steve Bennett	Group Human Resources Director
Roger Booker	Managing Director – Community Care Services
Tony Hosking	Managing Director – Residential Care Services
Sushil Jathanna	Group Clinical Services Director

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, 8th Floor, 280 Bishopsgate, London, EC2M 4RB.

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

Brokers

Investec Securities Ltd, 2 Gresham Street, London, EC2V 7QP.

Brewin Dolphin Securities, Commercial Union House, 39 Pilgrim Street, Newcastle upon Tyne, NE1 6RQ.

Registrars and Transfer Office

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

report of the directors for the year ended 30 September 2003

The directors present their report, together with the audited Accounts for the year ended 30 September 2003.

Principal activities, trading review, and future prospects

The group's principal activities comprise the provision of a range of health and social care solutions primarily to various public sector purchasers.

Results and dividends

The Consolidated Profit and Loss Account is set out on page 32. The profit for the year retained by the group is £2,723,000 (2002: £1,703,000). Other movements in reserves are shown in Note 19 of the Accounts.

The directors recommend the payment of a final dividend of 1.90p per share (2002: 1.70p), making a total dividend for the year of 2.80p per share (2002: 2.55p), amounting to £1,407,000 (2002: £1,252,000). The final dividend will, subject to shareholders' approval, be paid on 6 February 2004 to shareholders on the register at 9 January 2004.

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 their employment. 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 is committed to achieving high standards of environmental management. The Board encourages 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 the 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.

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 visit the residential homes and community care branches 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 18 of the Accounts). Management have developed a series of internal communication tools, including e-mail notices, newsletters and 'cascade' briefings in order to keep employees informed regarding the progress, financial position and commercial issues of the group.

Charitable and political donations

The group supports a small number of charities which themselves support the elderly and disadvantaged people. During the year it made charitable donations of £438 (2002: £2,940). No political donations were made (2002: £Nil).

Directors

The names of the directors who held office on 30 September 2003 are as follows:

John Nash
Richard Clough
Mike Parish
Paul Humphreys
Sir Tim Chessells
Lesley James
Fritz Ternofsky

Graham Lomer resigned from the Board on 29 September 2003.

In accordance with the Articles of Association Lesley James and Fritz Ternofsky retire by rotation and, being eligible, offer themselves for re-election. Both directors have letters of appointment that require the giving of three months notice by either party; no compensation is payable by the company in the event of early termination of their respective appointments.

report of the directors continued

Details of directors' remuneration, shareholding and options over shares in the company are given in the Directors Remuneration report on pages 24 to 29.

Substantial shareholders

The directors have been notified of the following interests requiring disclosure in the issued share capital of the company as at 12 December 2003:

	Number of shares	Percentage
Schroder Investment Management Ltd	5,333,127	10.56%
Insight Investment	4,998,866	9.90%
Gartmore Investment Ltd., Gartmore Fund Managers and Fenplace Two Ltd.	4,991,872	9.88%
JAS Nash	4,306,779	8.53%
Legal & General Group	1,552,189	3.07%

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 and requires disclosure as at 12 December 2003.

Statement on payment of suppliers

The group does not follow a specific code or statement on payment practice, however it is the group's policy to pay its suppliers in accordance with the payment terms agreed at the outset of the relationship providing the supplier adheres to its obligations.

As at 30 September 2003 the number of billing days outstanding to suppliers by the company was 30 (2002: 24).

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the forthcoming AGM.

Authority to purchase shares

The authority given at last year's AGM of the company held on 27 January 2003 for the company to purchase in the market 4,900,000 of its shares, representing 10% of the issued share capital, expires on 26 January 2004. This authority was not used during the year and shareholders will be asked to give a similar authority at the forthcoming AGM. During the year an Employee Benefit Trust ("EBT") was set up to act as the mechanism for the provision of shares which vest under the terms of the group's Long Term Incentive Plan. The EBT acquired 357,580 shares during the year at an average price of 196 pence each.

Annual General Meeting

The Notice of the Annual General Meeting is set out on pages 54 to 56. The attention of shareholders is drawn to the notes forming part of the Notice of the Annual General Meeting.

By order of the Board.

Paul Humphreys
Secretary
12 December 2003

report on corporate governance for the year ended 30 September 2003

The directors acknowledge the principles set out in the Combined Code issued by the committee on Corporate Governance and intend to comply with the main provisions thereof. 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 requires that the directors' review the effectiveness of the group's system of internal controls. This requirement extends this 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, that 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;
- The 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 senior management of the operating 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. These assessments are subsequently reviewed by the group Executive Committee and the Board.

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 Accounts, 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 Accounts.

The statement of directors' responsibilities for preparing the Accounts is set out on page 30.

Directors

The Board comprises the non-executive Chairman, the Chief Executive, the Finance Director and four non-executive directors. The directors' biographies appear on pages 18 and 19 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.

The non-executive directors, excluding the Chairman, have made arrangements to meet at least annually with the first such meeting being held in November 2003.

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 except for John Nash and Richard Clough, and is chaired by Lesley James. The Committee recommends the remuneration of the executive directors, including the granting of share options and service contracts. The Chairman of the Remuneration Committee will be available at the Annual General Meeting on 3 February 2004 to answer any questions regarding remuneration. The Directors Remuneration Report appears on pages 24 to 29.

The Audit Committee

The Audit Committee comprises the non-executive directors other than John Nash and Richard Clough under the chairmanship of Sir Tim Chessells. The Committee has direct access to the group's auditors and liaises with executive management to review the effectiveness of internal controls.

The Nomination Committee

The Nomination Committee comprises Lesley James, John Nash, Sir Tim Chessells, Fritz Ternofsky and Mike Parish and is chaired by Lesley James. The Committee 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 2003

Unaudited information

Composition and role of the Remuneration Committee

The Remuneration Committee ("the Committee") is chaired by Lesley James, with the other members being Sir Tim Chessells and Fritz Ternofsky. All members of the Committee are independent non-executive directors. The Committee has access to advice provided by the Chief Executive and the Group Human Resources Director. During the year, the Committee appointed Deloitte & Touche LLP to advise it on the creation and operation of the group's Long Term Incentive Plan ("LTIP") and Employee Share Option Scheme ("ESOS"). No director or senior executive is involved in any matter relating to their own remuneration. This report explains how the company has applied the principles in the Combined Code on Corporate Governance that relate to directors' remuneration. It will be submitted to the forthcoming annual general meeting for approval.

Framework and policy on executive directors' remuneration

The policy of the Committee is to ensure that the remuneration packages offered to the executive directors are competitive and designed to attract, retain and motivate executive directors and senior executives of a high calibre. These packages are reviewed regularly, at least annually, and independent advice is taken where appropriate. They are structured to achieve a balance between the fixed and variable elements of compensation for each director. Accordingly, a significant proportion of the remuneration package depends on the attainment of certain objectives, both short and long-term.

Basic salary

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, and is commensurate with their responsibilities and experience.

Incentive arrangements

Annual performance related bonuses

The bonus scheme for all executive directors is determined by reference to financial targets agreed by the Committee on an annual basis. For 2003 the scheme was based on the increase in Profit before tax, calculated as a per share amount, compared with the prior year. A bonus of 10% of salary was payable for an increase of 12.5% in this figure; no bonus was payable for performance below this threshold, and an additional bonus of 2% of salary was payable for each additional 1% increase above this threshold level. Bonuses are capped at 50% of salary. A bonus of 19.47% of salary was earned on this basis in 2003. A similar scheme has been designed for 2004.

The Committee may also pay additional bonuses on a discretionary basis for particular qualitative aspects of performance. For 2003 additional bonuses were paid to Mike Parish (£15,000) and Paul Humphreys (£10,000) as recognition of substantial progress achieved during the year on a number of significant projects. An additional bonus of £9,000 was paid to Graham Lomer in respect of specific new contracts signed or agreed during the year, in accordance with the terms of his personal bonus plan.

No bonus payments are pensionable. Half of any total bonus amount earned in excess of 10% of salary must be taken in Care UK shares, which must be retained for a minimum period of 3 years. Such shares are purchased in the market to the value of the bonus earned under the rules of the annual bonus plan.

Long Term Incentive Plan

Under the terms of the LTIP, company shares may be awarded each year to participants, on a discretionary basis, and subject to a maximum of 120% of base salary. The awards made during the year represented 100% of base salary for the Chief Executive and 75% of salary for other participants, including the Finance Director, and the maximum number of shares that could be vested in each executive director upon satisfaction of the performance criteria is shown in the table on page 27.

Awards under the LTIP scheme are subject to two performance criteria, the scales relating to which will be determined annually by the Committee. The criteria are (a) growth in Earnings Per Share ("EPS"), and (b) return on capital employed ("ROCE"). EPS is measured before revenue investment costs and exceptional items. ROCE is calculated as operating profit after goodwill amortisation and before revenue investment costs and exceptional items, divided by average capital employed, which is defined as net debt less assets in the course of construction. EPS growth is measured over the three-year period commencing with the year prior to that in which the award is made. ROCE is measured in the final year of the three-year vesting period. The separate elements of the overall award are calculated independently in determining the overall amount of each award that vest. The scales applying to the first awards made are:

- For the 50% of the award relating to EPS, if EPS growth over the three-year period equals or exceeds 18% per annum in excess of the annual growth in the retail price index ("RPI") then 100% of the award will vest. If EPS growth is at 8% per annum in excess of RPI then 40% of the award will vest. Awards will vest on a straight-line basis for EPS growth between 8% and 18% per annum in excess of RPI, and for growth below 8% per annum above RPI no awards will vest.

- For the 50% of the award relating to ROCE, if ROCE in year three equals or exceeds 16.5% then 100% of the award will vest. If ROCE equals 13.5% then 40% of the award will vest. Awards will vest on a straight-line basis for ROCE between 13.5% and 16.5%, and for ROCE below 13.5% no awards will vest.

In the year under review, EPS as measured for the LTIP scheme was 12.61p (2002: 10.25p), an increase of 23.02%, or 20.26% in excess of RPI over the year. ROCE for 2003 was 13.58%. If the performance targets for any award are missed there is no opportunity to re-measure performance in a subsequent year.

Employee share option scheme

The ESOS is administered by the Committee and is open to all directors and employees with participation being at the discretion of the Committee. Participants will be granted market value share options, up to a value not exceeding 200% of salary in any one year, which would become exercisable subject to the satisfaction of scaled performance targets over a three-year period. Although the rules of the ESOS and LTIP schemes would allow a participant to be granted options under both schemes in the same year the Committee will take into account any LTIP awards in making any grants under the ESOS. No options have been granted under the ESOS since its approval by shareholders on 31 July 2003.

Performance related share option scheme

Share options have been granted in previous years to the Chief Executive under the Performance-Related Share Option Scheme. In broad terms the performance conditions attaching to these options require that EPS for the previous three years must not be less than the base year increased by RPI + 5% tested annually. Details of such options are contained in the table below. No further options will be granted under this scheme.

Pensions

The group contributes to defined contribution personal pension schemes in respect of the executive directors. None of the executive directors are members of any defined benefit pension scheme. The contributions paid in respect of the executive directors are detailed in the table on page 26.

Contracts of service and compensation for termination

It is the Committee's policy that executive directors are employed on rolling contracts subject to twelve months' notice from either party. The existing directors are employed on these terms. There is no provision in any director's contract for predetermined compensation or liquidated damages in the event of early termination, but the company may make payments in lieu of notice at its' discretion. The Committee would review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances. The contract details for the executive directors are:

	Effective date	Unexpired term	Notice period
Mike Parish	5 Nov-2001	12 months	12 months
Paul Humphreys	8 Jul-2002	12 months	12 months

Non-executive directors

Non-executive directors are appointed for an initial term of three years, which may be renewed for further terms of up to three years thereafter. As with executive directors, non-executives must stand for re-election at the first annual general meeting following their appointment and at least every three years thereafter.

Non-executive directors' fees are determined having regard to the need to attract individuals of the right calibre and experience, the time and responsibilities entailed and the level of fees paid by companies of similar size. The remuneration of the Chairman and other non-executive directors is determined by the Board within the limits set out in the Articles of Association. None of the non-executive directors receives any pension contribution or participates in any of the incentive schemes. All of the non-executive directors letters of appointment are for periods not exceeding three years and provide for early termination without compensation.

The information provided until this point in the report has not been audited. The further disclosures set out below, with the exception of the line graph on page 29, have been audited.

remuneration report continued

Audited information

Directors' emoluments

The remuneration of each director who served during the year, excluding share options and awards, is set out in the table below:

	Date of appointment	Year ended 30 September 2003					Total £000	2002 Total £000
		Salaries /fees £000	Compensation for loss of office £000	Bonuses cash ¹ £000	Bonuses shares ^{1,2} £000	Benefits £000		
Executive directors								
Mike Parish ³	5 Nov 01	220	–	40	18	9	287	218
Paul Humphreys ^{3,4}	8 Jul 02	105	–	22	10	5	142	25
Graham Lomer	See note 5	92	112	16	–	11	231	121
James Bryant	See note 6	–	–	–	–	–	–	110
		417	112	78	28	25	660	474
Non-executive directors								
John Nash	4 Mar 94	26	–	–	–	–	26	15
Richard Clough ^{7,8}	25 Nov 87	137	–	30	–	6	173	148
Tim Chessells	17 Jul 95	20	–	–	–	–	20	15
Lesley James	1 Sep 00	20	–	–	–	–	20	15
Fritz Ternofsky	1 Sep 00	20	–	–	–	–	20	15
		223	–	30	–	6	259	208
Total		640	112	108	28	31	919	682

Notes:

- ¹ Included within the total bonus payment for the year is a total discretionary amount of £25,000 payable in addition to the performance related bonus, as detailed above. Half of this bonus was payable in cash and half in shares.
- ² The company purchased shares awarded as part of the company annual bonus scheme, in the market, shortly after the announcement of the group's year-end results.
- ³ The remuneration paid to Mike Parish and Paul Humphreys in 2002 reflect their appointments part way through that year.
- ⁴ Until 30 January 2003 Paul Humphreys was a non-executive director of McLeod Russel Holdings Plc and was paid a salary by Care UK equivalent to 87% of the full annualised amount to reflect the time spent on the company's business.
- ⁵ Graham Lomer resigned on 29 September 2003.
- ⁶ James Bryant, formerly Finance Director, retired from the Board on 30 September 2002.
- ⁷ Richard Clough was Chief Executive until 5 November 2001, at which date he was appointed as Deputy Chairman. He became non-executive as at 30 September 2002. 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). The bonus paid to Richard Clough was determined at the time he stood down as Chief Executive.
- ⁸ The highest paid director for 2003 was Richard Clough, whose total emoluments were £459,000 including a taxable gain of £285,750 from the exercise of 400,000 options at an exercise price of 99.0p.

Directors pensions

Pension contributions to defined contribution schemes are detailed in the table below. Contributions are made at a rate of 10% of salary for Mike Parish and 12.5% of salary for Paul Humphreys. Only basic salary is pensionable. These contributions are subject to Inland Revenue limits. Where such limits would be exceeded, the remaining benefits are raised to the level that would otherwise have been paid and are provided either in the form of contributions into a Funded Unapproved Retirement Benefit Scheme ("FURBS") or as a payment in lieu of pension benefits, at the discretion of the executive director. No such payments were made during the year.

	2003 £000	2002 £000
Mike Parish	22	18
Paul Humphreys	13	2
Graham Lomer	11	11
James Bryant	–	12
Richard Clough ¹	36	29
Total	82	72

Notes:

- ¹ When Richard Clough stood down as Chief Executive, it was agreed that a pension contribution of £22,500 per annum would be paid by the company until his final retirement date from the Board. In addition, Richard Clough commuted £13,000 of his emoluments into a further pension contribution.

remuneration report continued

Directors' interests in shares

The directors' beneficial interests (which include those of their immediate families) in the ordinary shares of the company and the executive directors' interests in the LTIP are shown in the following two tables:

	Shareholdings as at 30 September 2003	Shareholdings as at 1 October 2002	LTIP awards as at 30 September 2003 ²	LTIP awards as at 1 October 2002
Executive directors				
Mike Parish	45,821	25,821	107,317	–
Paul Humphreys	12,500	7,500	41,158	–
Graham Lomer ¹	660	660	–	–
Non-executive directors				
John Nash	4,306,779	4,181,779	–	–
Richard Clough	220,198	120,198	–	–
Sir Tim Chessells	30,000	30,000	–	–
L James	9,000	9,000	–	–
F Ternofsky	29,000	4,000	–	–

Notes:

¹ Shareholding as at 29 September 2003, the date of Graham Lomer's resignation as a director.

² As at 30 September 2003, 357,580 (1 October 2002: nil) ordinary shares were held by the trustees of the groups employee benefit trust of which 339,351 are subject to LTIP awards. The directors are deemed to have a potential interest in those shares, being beneficiaries under the trust.

³ Since 30 September 2003 shares have been purchased by the company on behalf of the executive directors as part of the 2003 annual bonus plan as follows:

Mike Parish	6,758
Paul Humphreys	3,895

The following table gives details of the LTIP share awards held for each director:

	Award date	Vesting date	Market price of a share on award	Interest at 1 October 2002	Awards during year	Awards vested during year	Interest at 30 September 2003
Mike Parish	4 Sep 03	See note 1	£2.05	–	107,317	–	107,317
Paul Humphreys	4 Sep 03	See note 1	£2.05	–	41,158	–	41,158

Notes:

¹ The awards made during the year will vest, subject to the performance criteria, following the approval by the Audit Committee of the group's results for the year to 30 September 2005.

remuneration report continued

Directors' interests in share options

Full details of options over ordinary shares in the company held by executive directors under the Performance-related share option scheme ("PRSOS"), the No. 2 Executive share option scheme ("Exec") and the Sharesave scheme ("SAYE") are shown below:

	Grant date	Options held as at 1 October 2002	Options granted during year	Options lapsed during year	Options exercised during year	Options held as at 30 September 2003	Exercise price p	Date from which exercisable	Expiry date
Mike Parish									
PRSOS ¹	21 Dec 01	200,000	–	–	–	200,000	180.5	20 Dec 04	20 Dec 08
PRSOS ¹	4 Dec 02	–	50,000	–	–	50,000	124.5	3 Dec 05	3 Dec 09
SAYE ²	27 Jun 02	5,555	–	(5,555)	–	–	171.0	N/A	N/A
SAYE ²	27 Jun 03	–	7,209	–	–	7,209	128.3	Aug 06	Feb 07
Paul Humphreys									
SAYE ²	27 Jun 03	–	7,209	–	–	7,209	128.3	Aug 06	Feb 07
Richard Clough ³									
PRSOS ¹	28 Aug 96	400,000	–	–	(400,000)	–	99.0	N/A	N/A
Exec	23 Jan 96	25,000	–	–	–	25,000	76.0	23 Jan 99	22 Jan 06
Exec	9 Jul 96	20,000	–	–	–	20,000	113.0	9 Jul 99	8 Jul 06
SAYE	12 Jul 00	4,725	–	–	–	4,725	205.0	Aug 03	Jan 04
Graham Lomer									
PRSOS ¹	28 Aug 96	43,000	–	–	(43,000)	–	99.0	N/A	N/A
PRSOS ¹	21 Dec 01	50,000	–	–	–	50,000	180.5	20 Dec 04	20 Dec 08
Exec	23 Jan 96	41,500	–	–	(41,500)	–	76.0	N/A	N/A
SAYE	12 Jul 00	4,725	–	–	(4,725)	–	205.0	N/A	N/A
SAYE	27 Jun 02	–	7,209	–	–	7,209	128.3	Aug 06	Feb 07

Notes:

¹ The options granted under the PRSOS are normally exercisable in three equal tranches from the date exercisable shown in the above table, subject to satisfaction of the related performance criteria.

² The group operates an all-employee savings-related share option scheme, the Sharesave scheme, which is designed to provide a long-term savings and investment opportunity for employees. For full details of this scheme, see page 47.

³ The options granted to Richard Clough were granted during his service as an executive director. The market price of the company's shares at the date of exercise of the PRSOS options exercised during the year were:

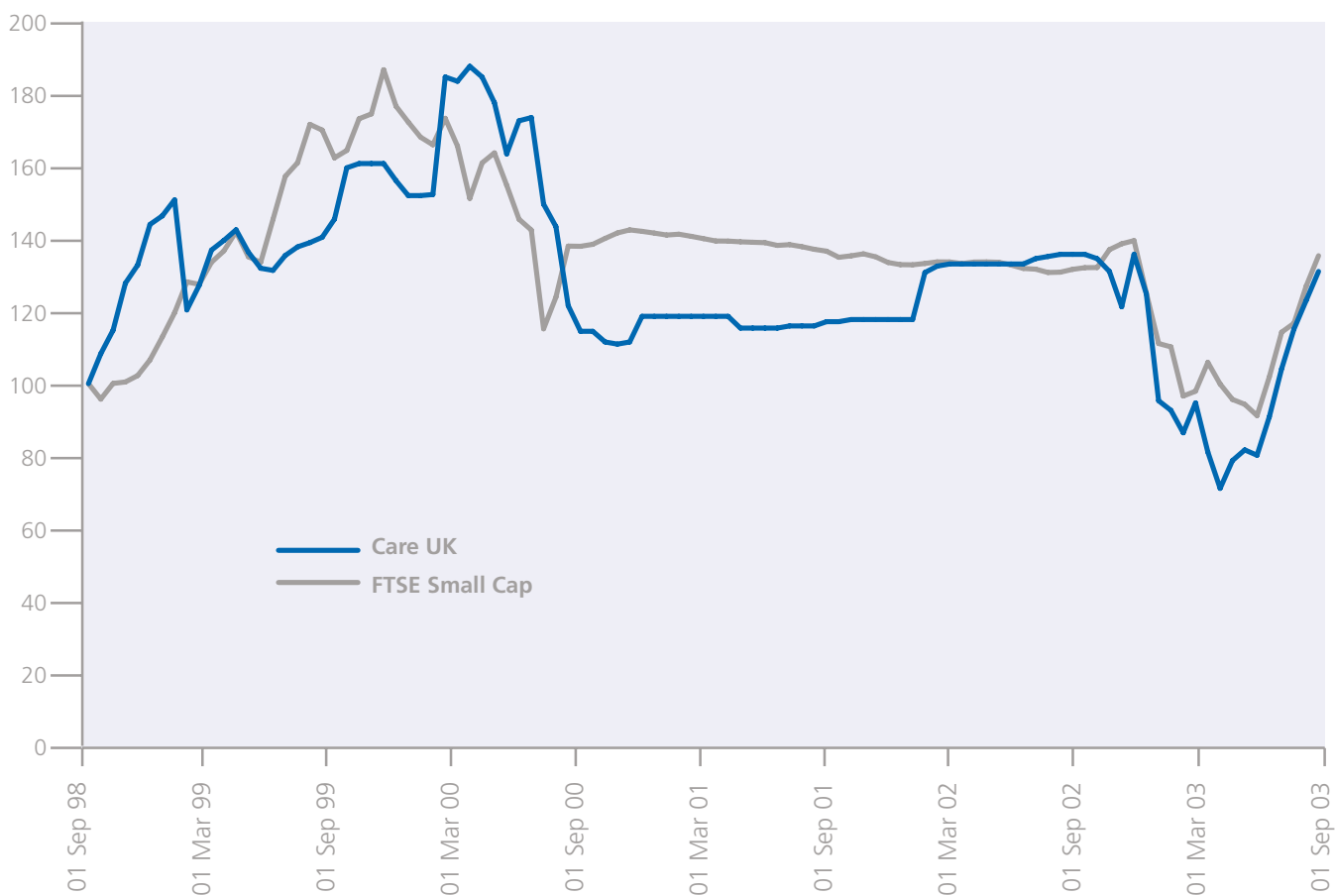
23 May 03	150,000 options exercised	Market price 154.0p
27 May 03	100,000 options exercised	Market price 160.0p
9 Jul 03	50,000 options exercised	Market price 182.5p
26 Aug 03	100,000 options exercised	Market price 199.5p

⁴ The market value of the company's ordinary shares at 30 September 2003 was 226.5p per share and the price range during the year was from 102.5p to 241.5p per share.

remuneration report continued

Performance graph

The graph below shows the Total Shareholder Return ("TSR") performance of the company compared to the TSR of the FTSE SmallCap over the last five financial years. The SmallCap has been chosen as the company has been a constituent of this index throughout the relevant period and as there are no direct peer comparator companies against which it would be more appropriate to measure return. TSR is not used directly for measuring performance under the group's long-term incentive plan as the Committee has determined that the measures used, which are explained above, are more appropriate in assessing the delivery of improved shareholder return.



Audit

In accordance with Schedule 7A to the Companies Act the group's auditors, KPMG Audit plc, have audited the sections within this remuneration report on director's emoluments, directors' interests in shares and options over ordinary shares.

Approved on behalf of the Board

Lesley James
Chairman of Remuneration Committee
12 December 2003

John Nash
Chairman
12 December 2003

statement of directors' responsibilities

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 to the members of Care UK plc

We have audited the financial statements on pages 32 to 52. We have also audited the information in the director's remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 30 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 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 23 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

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 2003 and of the profit of the group for the year then ended and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants, Registered Auditor
Ipswich
12 December 2003

consolidated profit and loss account

for the year ended 30 September 2003

	Notes	2003 Results before revenue investment costs £000	2003 Revenue investment in development projects £000	Total £000	2002 Results before revenue investment costs £000	2002 Revenue investment in development projects £000	Total £000
Turnover							
Continuing operations		107,248	–	107,248	97,794	–	97,794
Acquisitions		901	–	901	–	–	–
Cost of sales	3	108,149 (80,481)	– (2,997)	108,149 (83,478)	97,794 (74,733)	– (2,962)	97,794 (77,695)
Gross profit	3	27,668	(2,997)	24,671	23,061	(2,962)	20,099
Administrative expenses	3	(14,932)	–	(14,932)	(12,170)	–	(12,170)
Operating profit before goodwill amortisation	2	13,340	(2,997)	10,343	11,391	(2,962)	8,429
Goodwill amortisation	10	(604)	–	(604)	(500)	–	(500)
Operating profit							
Continuing operations		12,403	(2,997)	9,406	10,891	(2,962)	7,929
Acquisitions		333	–	333	–	–	–
	2	12,736	(2,997)	9,739	10,891	(2,962)	7,929
Net interest payable and similar items	4	(3,471)	–	(3,471)	(3,053)	–	(3,053)
Profit on ordinary activities before taxation	6	9,265	(2,997)	6,268	7,838	(2,962)	4,876
Taxation	7	(3,037)	899	(2,138)	(2,810)	889	(1,921)
Profit on ordinary activities after taxation		6,228	(2,098)	4,130	5,028	(2,073)	2,955
Dividends	8			(1,407)			(1,252)
Retained profit for the year				2,723			1,703
Earnings per share	9						
Basic		12.61p		8.36p	10.25p		6.02p
Diluted		12.59p		8.35p	10.14p		5.96p
Basic (before goodwill amortisation)		13.79p		9.54p	11.27p		7.04p
Diluted (before goodwill amortisation)		13.76p		9.52p	11.15p		6.97p

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 during the current and prior years.

There were no other recognised gains and losses during the current and prior years.

All results derive from continuing operations.

balance sheets

as at 30 September 2003

	Notes	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Fixed assets					
Intangible assets	10	15,975	9,288	–	–
Tangible assets	11	94,626	90,400	509	383
Investments : Joint venture	12	–	–	30	–
Share of gross assets		27	–	–	–
Share of gross liabilities		(31)	–	–	–
Goodwill		30	–	–	–
Loans to joint venture		62	–	27	–
Investment in own shares	12	88	–	57	–
Investments: other	12	702	–	702	–
		40	40	21,701	15,999
		111,431	99,728	22,969	16,382
Current assets					
Stocks and work in progress	13	744	828	–	–
Debtors	14	17,648	13,157	76,277	72,774
Cash at bank and in hand		3,450	2,877	412	15
		21,842	16,862	76,689	72,789
Creditors					
Amounts falling due within one year	15	(23,490)	(15,456)	(9,236)	(3,704)
Net current (liabilities)/assets		(1,648)	1,406	67,453	69,085
Total assets less current liabilities		109,783	101,134	90,422	85,467
Creditors					
Amounts falling due after more than one year	16	(63,994)	(60,388)	(62,149)	(59,202)
Provisions for liabilities and charges	17	(4,486)	(4,254)	(4)	–
Net assets		41,303	36,492	28,269	26,265
Capital and reserves					
Called up share capital	18	5,047	4,909	5,047	4,909
Share premium account	19	5,034	3,205	5,034	3,205
Merger relief reserve	19	–	–	8,951	8,951
Revaluation reserve	19	95	95	–	–
Profit and loss account	19	31,006	28,283	9,237	9,200
Equity shareholder's funds		41,182	36,492	28,269	26,265
Minority interests: equity interests		121	–	–	–
		41,303	36,492	28,269	26,265

The Accounts on pages 32 to 52 were approved by the Board of Directors on 12 December 2003 and were signed on its behalf by:

Mike Parish, Chief Executive
Paul Humphreys, Finance Director

consolidated cash flow statement

for the year ended 30 September 2003

	Notes	2003 £000	2002 £000
Cash inflow from operating activities	23	10,983	9,933
Returns on investments and servicing of finance			
Interest paid		(3,133)	(3,754)
Interest received		20	17
Net cash outflow from returns on investments and servicing of finance		(3,113)	(3,737)
Taxation			
UK Corporation tax paid		(821)	(2,384)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(8,856)	(11,950)
Proceeds from sales of tangible fixed assets		2,425	1,224
Investment in own shares		(702)	–
Loans to joint venture		(62)	–
Net cash outflow from capital expenditure and financial investment		(7,195)	(10,726)
Acquisitions			
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	10	(2,734)	(915)
Net cash outflow from acquisitions		(2,734)	(915)
Equity dividends paid		(1,282)	(1,154)
Cash outflow before financing		(4,162)	(8,983)
Financing			
Issue of ordinary share capital		951	43
New secured loans		1,530	12,349
Repayments of amounts borrowed		(790)	(1,122)
Capital element of finance lease payments		–	(25)
Net cash inflow from financing		1,691	11,245
(Decrease)/ increase in cash in the year	24	(2,471)	2,262
Reconciliation of net cash flow to movement in net debt			
Net debt at start of period	24	59,475	50,535
Decrease/(increase) in cash for the period		2,471	(2,262)
New secured loans		1,530	12,349
Repayment of amounts borrowed		(790)	(1,122)
Capital element of finance lease payments		–	(25)
Acquisition of subsidiary undertaking		362	–
Increase in net debt during period		3,573	8,940
Net debt at end of period	24	63,048	59,475

other consolidated primary statement

for the year ended 30 September 2003

reconciliation of movement in shareholders' funds

	2003 £000	Group	2002 £000
Opening shareholders' funds	36,492		34,746
Profit on ordinary activities after tax	4,130		2,955
Dividends	(1,407)		(1,252)
Issue of shares	1,967		43
Closing shareholders' funds	41,182		36,492

notes to the accounts

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's accounts. The group has followed the transitional arrangements of FRS 17: "Retirement benefits" in the accounts. The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

Where a subsidiary is consolidated under acquisition accounting rules and the fair value of the purchase consideration and associated costs 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.

A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control. The group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet in accordance with the gross equity method of accounting.

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 accounts at cost or external professional valuation. The last valuation was 1992 and following the implementation of FRS 15 there have been no further valuations. Assets in the course of construction are carried in the accounts at cost, taken from the most recent valuation certificate received prior to the date of the accounts.

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 by equal instalments over their estimated useful economic lives as follows:

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

Costs incurred in relation to contracts not yet signed where the group has been appointed preferred provider are capitalised in accordance with UITF Abstract 34. Such amounts are held within Other Debtors until such time as the contract is signed when they are transferred into assets in the course of construction.

Stocks and work in progress

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.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation balances are not discounted.

notes to the accounts continued

Leasing

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life 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 credited against the cost of the asset in the balance sheet and taken to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Long Term Incentive Plan

The group's Long Term Incentive Plan (LTIP) is a separately administered trust. Liabilities of the LTIP are guaranteed by the company and the assets of the LTIP mainly comprise shares in the company. In accordance with UITF 13, the assets, liabilities, income and costs of the LTIP have been included in the consolidated and company's accounts. The cost of annual awards to participants that take the form of shares or rights to shares are recognised over the period to which each of the performance criteria are measured and the benefits accrue.

2. Segmental analysis

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

Analysis by class of business:	Turnover		Operating profit		Capital employed	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Residential Care Services	70,259	65,674	11,495	10,264	70,652	62,616
Community Care Services ¹	37,890	32,120	3,388	2,626	11,843	8,208
Central costs	–	–	(1,543)	(1,499)	–	–
Unallocated	–	–	–	–	17,640	17,080
Total before goodwill amortisation and revenue investment in development projects	108,149	97,794	13,340	11,391	100,135	87,904
Goodwill amortisation ²			(604)	(500)		
Total before revenue investment in development projects			12,736	10,891		
Revenue investment in development projects ³			(2,997)	(2,962)		
Total operating profit			9,739	7,929		

Notes

¹ The capital employed within Residential Care Services includes £3,378,000 in respect of Childrens Services relating entirely to the business acquired at the end of the financial year. Community Care Services includes £901,000 of turnover and £333,000 of operating profit from businesses acquired during the year.

² Goodwill amortisation comprises £115,000 (2002: £91,000) in respect of Residential Care Services and £489,000 (2002: £409,000) in respect of Community Care Services.

³ RIDP relates wholly to Residential Care Services.

⁴ Capital employed represents net assets plus amounts classified as net debt less assets in the course of construction.

notes to the accounts continued

3. Operating profit

	2003		2002
	Existing operations £000	Acquisitions £000	Total £000
Turnover	107,248	901	108,149
Cost of sales	(82,910)	(568)	(83,478)
Gross profit	24,338	333	24,671
Administrative expenses	(14,932)	–	(14,932)
Operating profit	9,406	333	9,739
			Total £000
			97,794
			(77,695)
			20,099
			(12,170)
			7,929

4. Net interest payable and similar items

	2003 £000	2002 £000
Interest payable on bank overdrafts and loans	3,720	3,342
Less: amount capitalised to assets in the course of construction at an annual rate of 6.5% (2002: 7.0%)	(229)	(272)
Interest payable and similar charges	3,491	3,070
Interest receivable	(20)	(17)
Net interest payable and similar items	3,471	3,053

5. Employees

	2003 £000	2002 £000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	70,771	54,534
Social security costs	4,774	3,934
Other pension costs	548	838
	76,093	59,306

Other pension costs represent contributions to the group's pension schemes. Accrued contributions at 30 September 2003 were £nil (2002: £nil).

Directors emoluments are disclosed in the remuneration report.

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

	2003 Number	2002 Number
Nursing, care & support staff	7,655	6,628
Management & administration	495	451
	8,150	7,079

notes to the accounts continued

6. Profit on ordinary activities before taxation

	2003 £000	2002 £000
This is arrived at after charging/(crediting):		
Depreciation - owned assets	2,794	2,520
Auditors' remuneration		
Statutory audit services	77	74
Further assurance services	8	6
Tax advisory services	100	68
Leasehold occupancy costs	2,005	2,457
Hire of other assets - operating leases	6	6
Loss/(profit) on disposal of fixed assets	464	(47)
Goodwill amortisation	604	500

Of the auditors' remuneration £8,500 (2002: £8,200) was in respect of the company. In addition fees paid to the auditors shown above exclude £40,000 in respect of IT systems work and £26,000 relating to the due diligence for the acquisition of Corvedale Holdings Ltd. The former item has been capitalised as part of an ongoing investment in upgrading the groups financial systems and will be depreciated in accordance with group policy from the date when the new system becomes operational. The latter item is included within the overall transaction costs incurred in the acquisition of Corvedale Holdings Ltd.

7. Taxation on profit on ordinary activities

	2003 £000	2002 £000
UK corporation tax payable at 30% (2002: 30.0%)	1,953	1,442
Deferred taxation	232	552
Adjustment relating to previous years	(47)	(73)
	2,138	1,921

The tax charge for the year represents an effective rate on profit on ordinary activities of 34.1% (2002: 39.4%). The rate for the year ended 30 September 2003 is affected inter alia by capital allowances for the year.

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

Current tax reconciliation

	2003 £000	2002 £000
Profit on ordinary activities before tax	6,268	4,876
Current tax at 30%	1,880	1,463
Current tax charge	1,953	1,442
(Over)/under charge	(73)	21
Effects of:		
Expenses not deductible for tax purposes	(49)	(60)
Goodwill amortisation	(527)	(500)
Capital allowances for period in excess of depreciation	451	498
Other	(168)	75
Net total items	(293)	13
Tax at 30%	(88)	4
Plus tax charged at 20%	15	17
(Over)/under charge	(73)	21

notes to the accounts continued

8. Dividends

	2003 £000	2002 £000
Ordinary dividends		
Interim paid of 0.90p per share (2002: 0.85p)	448	418
Final proposed of 1.90p per share (2002: 1.70p)	959	834
	1,407	1,252

The final dividend proposed of 1.90p per ordinary share (subject to shareholders' approval), will be paid on 6 February 2004 to shareholders on the register at 9 January 2004.

9. Earnings per share

The calculation of earnings per share is based on a weighted average of 49,389,727 issued ordinary shares (2002: 49,050,819) in issue during the year ended 30 September 2003 and on £4,130,000 and £4,711,000 (2002: £2,955,000 and £3,455,000) 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 49,478,065 ordinary shares (2002: 49,556,246) 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 £4,130,000 and £4,711,000 (2002: £2,955,000 and £3,455,000) has been calculated on a similar basis.

The calculation of undiluted and diluted earnings per share for the year to 30 September 2003 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 after adjusting for revenue investment in development projects.

10. Intangible assets

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

Goodwill	Group £000
Cost	
At 1 October 2002	10,534
Additions	7,380
Adjustment in respect of acquisitions made in prior years	(89)
At 30 September 2003	17,825
Amortisation	
At 1 October 2002	1,246
Charge for year	604
At 30 September 2003	1,850
Net book value:	
At 30 September 2003	15,975
At 30 September 2002	9,288

As permitted under FRS 7 "Fair Values in Acquisition Accounting", the fair value of the assets acquired may be reassessed in the instance of further information arising in the first full financial year following the year of acquisition.

notes to the accounts continued

10. Intangible assets continued

In January 2003, the group acquired the business and assets of Premier Homecare. On 26 September 2003 the company acquired 75% of the shares of Corvedale Holdings Limited.

	Acquisition of Corvedale Holdings			Premier	Total
	Book value £000	Fair value adjustment £000	Fair value £000	Fair value £000	
Tangible fixed assets	821	–	821	–	821
Current assets					
Stock	2	–	2	–	2
Debtors	524	–	524	–	524
Cash	105	–	105	–	105
Total assets	1,452	–	1,452	–	1,452
Liabilities					
Creditors	(659)	(309)	(968)	–	(968)
Provisions	(1)	–	(1)	–	(1)
Total liabilities	(660)	(309)	(969)	–	(969)
Net assets	792	(309)	483	–	483
Net assets after deducting 25% minority interest			362	–	362
Goodwill arising			5,340	2,040	7,380
Total consideration			5,702	2,040	7,742

Satisfied by:

	Cash £000	Shares £000	Total £000	Cash £000	Total £000
On acquisition	1,983	1,017	3,000	800	3,800
Transaction costs	198	–	198	40	238
Contingent consideration	1,152	1,352	2,504	1,200	3,704
	3,333	2,369	5,702	2,040	7,742

The fair value adjustment in respect of Corvedale has been made to recognise a provision for an obligation existing at the time of the acquisition. Corvedale made a profit after taxation of £94,000 in the 5 months from the beginning of its financial year to the date of acquisition. In its previous full financial year the profit after taxation was £224,000.

The other business acquired during the year, Premier Homecare is a homecare business providing care workers to service users in the London area. Prior to its acquisition by Care UK, Premier was operated as part of a larger, integrated business. Accordingly, profit for the business was not separately reported.

notes to the accounts continued

11. 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 2002	77,361	857	13,451	8,063	99,732
Additions	873	40	1,806	7,026	9,745
Acquisitions	677	71	73	–	821
Transfer to current assets	(504)	–	–	(162)	(666)
Transfers	8,893	–	488	(9,381)	–
Disposals	(1,339)	(238)	(641)	(1,460)	(3,678)
At 30 September 2003	85,961	730	15,177	4,086	105,954
Depreciation:					
At 1 October 2002	2,515	413	6,404	–	9,332
Charge for year	1,129	165	1,500	–	2,794
Transfer to current assets	(19)	–	–	–	(19)
Disposals	(37)	(192)	(550)	–	(779)
At 30 September 2003	3,588	386	7,354	–	11,328
Net book value:					
At 30 September 2003	82,373	344	7,823	4,086	94,626
At 30 September 2002	74,846	444	7,047	8,063	90,400

Freehold land and buildings include depreciable assets with an original cost of £51,880,000 (2002: £40,522,000) and capitalised interest of £1,979,000 (2002: £1,784,000). Included within the net book value of land and buildings are long leasehold buildings which have a net book value of £12,642,000 (2002: £10,892,000) and short leasehold buildings which have a net book value of £8,966,000 (2002: £5,831,000).

Assets in the course of construction include capitalised interest of £494,000 (2002: £437,000). The net book value of motor vehicles includes assets with a cost of £142,000 (2002: £nil) and accumulated depreciation of £71,000 (2002: £nil) held under finance leases. The depreciation charge on fixed assets held under finance leases was £nil (2002: £nil).

Those properties included in the total for land and buildings, which are not carried at their original historical cost, amount to £1,833,000, equivalent to their 1992 open market valuation. These values have been retained in the accounts 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:

Cost	£000
Accumulated depreciation	86,321
	(4,043)
Net book value:	
At 30 September 2003	82,278
At 30 September 2002	74,749

notes to the accounts continued

11. Tangible assets continued

Company	Motor vehicles £000	Furniture fittings & equipment £000	Assets in the course of construction £000	Total £000
Cost:				
At 1 October 2002	56	479	–	535
Additions	19	133	33	185
Disposals	(26)	–	–	(26)
At 30 September 2003	49	612	33	694
Depreciation:				
At 1 October 2002	26	126	–	152
Charge for year	11	45	–	56
Disposals	(23)	–	–	(23)
At 30 September 2003	14	171	–	185
Net book value:				
At 30 September 2003	35	441	33	509
At 30 September 2002	30	353	–	383

12. Investments

	Group			Company		
	Investment in joint venture £000	Investment in own shares £000	Other £000	Investment in joint venture £000	Investment in own shares £000	Shares in subsidiary undertakings £000
Cost or valuation						
At 1 October 2002	–	–	40	–	–	15,999
Additions	88	702	–	57	702	5,702
At 30 September 2003	88	702	40	57	702	21,701

13. Stocks and work in progress

	Group	
	2003 £000	2002 £000
Assets for sale	584	99
Other	160	729
	744	828

14. Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Due within one year:				
Trade debtors	16,343	10,729	4	43
Amounts owed by subsidiary undertakings	–	–	73,190	70,570
Prepayments and accrued income	279	1,026	558	403
Other	1,026	1,110	380	433
Corporation tax	–	292	2,145	1,325
	17,648	13,157	76,277	72,774

notes to the accounts continued

15. Creditors falling due within one year

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Bank loans and overdrafts (note 16)	3,932	1,964	2,983	–
Obligations under finance leases	47	–	–	–
Trade creditors	2,225	1,742	194	63
Amounts owed to subsidiary undertakings	–	–	1,657	2,117
Corporation tax	869	–	–	–
Employee taxes and social security	1,870	1,905	43	–
Accruals and deferred income	9,778	7,552	1,662	664
Dividends payable	959	834	959	834
Other	3,810	1,459	1,738	26
	23,490	15,456	9,236	3,704

Included within bank loans and overdrafts are loan notes issued to the vendors of acquired businesses, amounting to £166,000 (2002: £549,000). The loan notes carry interest at base lending rate and are redeemable at par between April 2002 and April 2006.

16. Creditors falling due after more than one year

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Bank loans	62,519	60,388	61,274	59,202
Other	1,475	–	875	–
	63,994	60,388	62,149	59,202

Included within bank loans are two amounts of £0.1m each at fixed rates of 9.1% and 11.5% respectively, repayable by monthly instalments over the periods up until 9 May 2005.

The group has a secured loan facility of £73.3m. £50m of the facility expires on 26 March 2010, and carries repayments of £0.25m per quarter increasing to £0.5m per quarter from and including 23 December 2004 with a single final repayment of the remaining balance due on 26 March 2010. £25m of the facility is a 5 year evergreen facility which carries no repayment requirement. In accordance with FRS 4, loan arrangement fees incurred in the initial setting up of the group facility have been set off against the loan facility and recognised in the profit and loss account over the life of the facility.

Included within bank loans are loan notes of £894,000 (2002: £1,146,000) 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.

The bank loans, and the overdraft referred to in Note 15, 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.

notes to the accounts continued

16. Creditors falling due after more than one year continued

Financial assets

The group has no financial assets, excluding short term debtors, other than cash at bank of £3.45m. 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. In 2002, 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 £25m of borrowings.
- A 7 year fixed rate swap was purchased at 5.67% plus margin on £25m, 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 £76.3m, 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	
	2003	2002
	£000	£000
Debt can be analysed as falling due:		
In one year or less, or on demand	3,979	1,964
In more than one year but not more than two years	2,245	1,186
In more than two years but not more than five years	6,000	1,000
In five years or more	54,274	58,202
	66,498	62,352

The group has £3m 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 were not materially different.

notes to the accounts continued

17. Provisions for liabilities and charges

Group	2003 Provided £000	2002 Provided £000
Deferred taxation:		
Accelerated capital allowances	3,782	3,608
Other timing differences	704	646
	4,486	4,254

The movement on group deferred taxation is as follows:

	2003 £000
At 1 October 2002	4,254
Charged to profit and loss account	232
At 30 September 2003	4,486

All the above amounts are stated at the expected full UK corporation tax rate of 30%.

The deferred tax balance in the company is a liability of £4,000 (2002: £nil) relating to short term timing differences.

18. Share capital

	2003 £000	2002 £000
Authorised		
70,000,000 ordinary shares of 10p each (2002: 70,000,000)	7,000	7,000
	2003 £000	2002 £000
Ordinary shares		
50,467,425 allotted, called-up and fully paid shares of 10p each (2002: 49,083,576)	5,047	4,909

During the year a total of 957,916 ordinary shares of 10p each were allotted as a result of the exercise of options: 230,636 by the exercise of No.2 Executive Scheme options, 3,780 by the exercise of SAYE options and 723,500 by the exercise of Performance Related Share Scheme options. The aggregate proceeds received as a result of these issues was £951,000.

In addition, 425,933 shares were issued as partial consideration for the acquisition of Corvedale Holdings Ltd, at a value of £1,017,000.

notes to the accounts continued

18. Share capital continued

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 was subsequently approved by the Inland Revenue, although unapproved options were also granted under the scheme. No further grants will be made under this scheme. At 30 September 2003 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
23 January 1996	59,249	76.0p
9 July 1996	70,000	113.0p
19 December 1997	10,000	145.0p
19 February 1998	81,192	159.5p
28 May 1998	5,000	181.0p
5 January 1999	15,000	214.5p
14 March 2000	10,000	222.5p
22 December 2000	14,000	241.5p
21 December 2001	21,000	180.5p
4 December 2002	50,000	124.5p

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

During the year, 50,600 options lapsed.

2. SAYE Scheme

At 30 September 2003 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
12 July 2000	787	205.0p
3 July 2001	94,253	220.0p
27 June 2002	116,073	171.0p
27 June 2003	426,101	128.3p

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

During the year 637,310 options lapsed.

3. Performance Related Share Option Scheme

At 30 September 2003 the following options had been granted and were still outstanding under this scheme:

Date of grant	Number of shares	Exercise price
5 January 1999	15,000	214.5p
22 December 2000	55,000	241.5p
21 December 2001	290,000	180.5p

All of these 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.

During the year 20,000 options lapsed.

notes to the accounts continued

19. Reserves

Group	Share premium £000	Revaluation reserve £000	Profit and loss account £000
At 1 October 2002	3,205	95	28,283
Premium on issue of shares	1,829	–	–
Retained profit for the year	–	–	2,723
At 30 September 2003	5,034	95	31,006

Company

	Share premium £000	Merger relief reserve £000	Profit and loss account £000
At 1 October 2002	3,205	8,951	9,200
Premium on issue of shares	1,829	–	–
Retained profit for the year	–	–	37
At 30 September 2003	5,034	8,951	9,237

In accordance with section 230(4) 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 £1,444,000 (2002: £1,263,000). The premium on issue of shares of £1,829,000 (2002: £38,000) is shown net of issue costs of £nil (2002: £nil).

Cumulative goodwill written off to reserves on the acquisition of subsidiary undertakings, net of that attributable to disposals, is £10,521,000 (2002: £10,521,000).

20. Capital commitments

	Group	
	2003 £000	2002 £000
Contracted for, but not provided	6,172	3,817

The company had no capital commitments (2002: £nil).

notes to the accounts continued

21. Commitments under operating leases

	2003 Land and buildings £000	2003 Other £000	2002 Land and buildings £000	2002 Other £000
Group				
Operating leases which expire:				
within one year	46	18	70	30
within two to five years	1,173	–	1,075	23
after five years	402	–	367	–
	1,621	18	1,512	53
Company	£000	£000	£000	£000
Operating leases which expire:				
after five years	184	–	184	–

22. 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, requires certain additional information to be disclosed, which is set out below in respect of the Care UK Local Government pension 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 directors began to wind the scheme up. The shortfall on wind up of this scheme was £30,000, which was paid into the scheme during the year. No further liability exists in relation to this scheme.

The date of the most recent full actuarial valuation on which the amounts in the financial statements are based was 1 April 2001. Employer contributions amount to £404,000 for the year ended 30 September 2003. Contribution rates in respect of future years will be 23.4% of total pensionable salaries.

The principal actuarial assumptions used are as follows:-

	As at 30 September		
	2003	2002	2001
	%	%	%
Rate of increase in salaries	3.25	3.75	4.00
Rate of increase in actual and deferred pensions	5.00	5.00	5.00
Discount rate	5.40	5.50	6.20
Rate of inflation	2.25	2.25	2.50

notes to the accounts continued

22. Pensions continued

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

	Expected return for 2003/4	Year ended 30 September 2003 £000	Expected return for 2002/3	Year ended 30 September 2002 £000	Expected return for 2001/2	Year ended 30 September 2001 £000
Equities	6.5%	1,179	7%	895	7%	343
Market value of assets		1,179		895		343
Actuarial value of liabilities		(1,496)		(1,295)		(475)
Deficit in scheme		(317)		(400)		(132)
Related deferred tax asset		95		120		40
Net pension liability		(222)		(280)		(92)

An analysis of the amounts that would be charged to operating profit are as follows:-

	2003 £000	2002 £000
Current service cost	365	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	365	530

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 2003 are as follows:-

	2003 £000	2002 £000
Expected return on pension scheme assets	73	45
Interest on pension scheme liabilities	(78)	(48)
Net return	(5)	(3)

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 2003 are as follows:-

	2003 £000	2002 £000
Actual return less expected return on pension scheme assets	(76)	(109)
Experience gains and losses arising on the scheme liabilities	318	3
Changes in assumptions underlying the present value of the scheme liabilities	(193)	(164)
Actuarial gain/(loss) recognised in STRGL	49	(270)

notes to the accounts continued

22. Pensions continued

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

	2003 £000	2002 £000
Deficit in scheme at beginning of the year	(400)	(132)
Movement in year:-		
Current service cost	(365)	(530)
Contributions paid by the employer	404	535
Past service costs	-	-
Other finance income	(5)	(3)
Actuarial gain/(loss)	49	(270)
Deficit in scheme at the end of the year	(317)	(400)

The history for the year ended 30 September 2003 of experience gains and losses are as follows:-

Difference between the expected and actual return on scheme assets:

	2003 £000	2002 £000
Amount(£)	(76)	(109)
% of scheme assets	(6%)	(12%)
Experience gains and losses on scheme liabilities:-		
Amount(£)	318	3
% of present value of scheme liabilities	21%	<1%
Total amount recognised in STRGL:-		
Amount(£)	49	(270)
% of present value of scheme liabilities	(3%)	(21%)

23. Reconciliation of operating profit to cashflow from operations

	2003 £000	2002 £000
Reconciliation of operating profit to cashflow from operations		
Operating profit	9,739	7,929
Depreciation	2,794	2,520
Goodwill amortisation	604	500
Loss/(profit) on disposal of fixed assets	464	(47)
Decrease/(increase) in stocks	86	(514)
Increase in debtors	(4,259)	(1,013)
Increase in creditors	1,555	558
Cash flow from operating activities	10,983	9,933

notes to the accounts continued

24. Analysis of net debt

	At 1 October 2002 £000	Cash flow £000	Acquisitions £000	At 30 September 2003 £000
Cash in hand at bank	(2,877)	(573)	–	(3,450)
Overdrafts	706	3,044	–	3,750
	(2,171)	2,471	–	300
Debt due within one year	1,258	(1,076)	–	182
Debt due after one year	60,388	1,816	315	62,519
Finance leases	–	–	47	47
Net debt	59,475	3,211	362	63,048

25. Related party transactions

In January 2003 the group acquired Premier Homecare from the Match Group Ltd, a company chaired by Sir Tim Chessells. The price paid for the business was determined by the Board on an arm's length basis, and Sir Tim Chessells did not participate in any Board discussion relating to this acquisition. There were no other material contracts with the group in which any director had an interest.

At the year end, the group was owed £62,000 (2002: £nil) by Care UK Afrox Healthcare Limited and the company was owed £27,000 (2002: £nil).

26. Principal subsidiary undertakings

The following principal subsidiaries, which are incorporated in Great Britain and operate in the United Kingdom, have been included in the consolidated accounts and are all directly held by the holding company.

Subsidiaries	Effective percentage holding	Nature of business
Care UK Community Partnerships Group Limited	100%	Provides specialist health care, intermediate care, social care and facilities management services for the elderly
Care UK Mental Health Partnerships Limited	100%	Provides specialised nursing and residential care for adults with mental illness
Care Solutions Limited	100%	Provides residential and supported living services, care, and day activities, for people with learning disabilities
Care UK Homecare Limited	100%	Provides carers to support people in their own home and provides specialist healthcare professionals
Corvedale Holdings Limited	75%	Provides residential care, education and therapeutic activities for young people
Joint ventures		
Care UK Afrox Healthcare Limited	50%	Provides new acute surgery

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

5 year record

	# 2003 £000	# 2002 £000	# 2001 £000	# 2000 £000	1999 £000
Turnover	108,149	97,794	81,239	66,932	51,046
Operating profit before goodwill amortisation	13,340	11,391	9,641	8,957	7,466
Profits before tax before revenue investment costs	9,265	7,838	6,647	6,560	6,262
Profit before tax after revenue investment costs	6,268	4,876	4,456	5,962	6,262
Undiluted earnings per share:					
Total before revenue investment costs	12.61p	10.25p	9.17p	11.23p	11.71p
Total after revenue investment costs	8.36p	6.02p	6.01p	9.98p	–
Before goodwill amortisation and revenue investment costs	13.79p	11.27p	10.08p	11.88p	11.71p
Before goodwill amortisation and after revenue investment costs	9.54p	7.04p	6.92p	10.61p	11.71p
Dividends per share	2.80p	2.55p	2.30p	2.10p	1.80p
# results before revenue investment costs					

Notes

- 1 Buildings depreciation was first charged in 2000 following the implementation of FRS 15.
- 2 Amounts for 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 of annual general meeting

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 3 February 2004, 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 2003.
2. To declare a final dividend of 1.90p per ordinary share for the year ended 30 September 2003.
3. To re-elect L James 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 herself for re-election.
4. To re-elect F Ternofsky 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. To re-appoint KPMG Audit Plc as auditors to the company and to authorise the directors to determine their remuneration.
6. To approve the remuneration report for the year ended 30 September 2003.

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 £1,682,247 provided that this authority shall expire on 30 April 2005 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 £252,337; 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 2005 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.

notice of annual general meeting continued

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 5,000,000 (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.

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

That the company's Articles of Association be amended as follows:

- (a) Article 86 Replace the figure "£100,000" in the first sentence with "£200,000" and
- (b) Article 159.1. In the first sentence, delete the word "Auditor".

The first proposed change is to Article 86 and proposes an increase in the maximum limit on fees paid to directors from £100,000 to £200,000. This change, if approved by shareholders, will allow the Board to increase the level of fees paid to its non-executive directors in the future. It will also allow the Board to appoint additional non-executive directors if it considers this to be necessary or appropriate. Non-executive directors' fees are determined by the Board. It is expected that this increase in the limit of directors' fees will be sufficient for the foreseeable future.

The second proposed change is to Article 159.1. Article 159.1 entitles every director, auditor, secretary and other officer of the company to be indemnified by the company against all costs, charges, losses, expenses and liabilities incurred by them in the execution and discharge of their duties. The Board believe that it is no longer appropriate for the company to indemnify the auditors as this could affect their independent judgement. The Board are therefore proposing to delete the word "Auditor" from Article 159.1.

BY ORDER OF THE BOARD

Paul Humphreys

Secretary

Registered Office: Connaught House,
850 The Crescent,
Colchester Business Park,
Colchester, Essex CO4 9QB
12 December 2003.

notice of annual general meeting continued

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 C04 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 27 January 2003, 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 £1,636,119. 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 £1,682,247 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 £1,682,247 nominal aggregate value of relevant securities to be conferred pursuant to Resolution 5 will lapse on 30 April 2005 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 27 January 2003, 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 £245,418 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 £252,337, 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 8 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 should result in an improvement in earnings per share for the remaining shareholders and all such purchases will be made through The London Stock Exchange.