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Care UK Plc is a specialist care outsourcing business working in partnership with the NHS and Social Services, providing health and social care solutions to a range of service users in residential, community, primary and acute care settings.

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John Nash, Chairman of Care UK, commented:

“Care UK has followed a strategy of working in partnership, through long term contracts, with the public sector for over 10 years. The Government’s commitment to increased contracting with the private sector for health and social care provision is, therefore, very encouraging.

The scale of opportunity arising from this change in market structure is substantial and is reflected in Care UK’s current pipeline and growth prospects.”

Interim Highlights

six months ended 31 March

	2004	2003 as restated (note 1)
	£000	£000
Turnover	63,956	54,225
Operating profit *	6,232	3,790**
Profit before tax *	4,420	2,044**
Profit before tax	3,967	1,747**
Undiluted earnings per share *	5.77p	2.78p**
Interim dividend per share	0.95p	0.90p

* before goodwill amortisation of £453,000 (2003: £297,000)

** after Revenue Investment in Development Projects of £2,152,000

● **Solid first half performance, strong growth**

- Turnover up by 18%
- Contracts signed valued at £27 million p.a.

● **Residential Care Services:**

- Three new elderly care units opened in March as planned
- Hammersmith & Fulham and Croydon contracts signed, worth £6.6 million p.a.
- New preferred provider appointment in Birmingham

● **Community Care Services:**

- Turnover up by 23% (14% excluding acquisitions)
- New contract wins valued at £4.5 million p.a.
- Acquisition of Megacare in Lincoln in late 2003

● **Trent ISTC contract signed in March 2004**

- Ilkeston ISTC interim service fully operational since April 2004

● **Plymouth ISTC contract signed by 50% joint venture**

● **Acquisition of Althea Park specialist psychiatric business for up to £5.1 million**



operations and financial review

Care UK has continued to make good progress towards its strategic goal of extending its range of health and social care provision, with a greater focus on higher value services and acute care. The group's success has been underpinned by important contract signings and the commencement of new services across the group.

Financial Results

The group results, set out in the consolidated profit and loss account, show turnover of £64.0m (2003: £54.2m) and operating profit before goodwill amortisation of £6.2m (2003: £3.8m). Profit before tax and goodwill amortisation was £4.4m (2003: £2.0m) and the associated earnings per share were 5.77p (2003: 2.78p). Overall profit before tax was £4.0m (2003: £1.7m) with associated earnings per share of 4.89p (2003: 2.19p).

The Board are recommending an interim dividend of 0.95p per share (2003: 0.90p), an increase of 5.6%. The interim dividend will be paid on 9 July 2004 to shareholders on the register as at 25 June 2004.

Cash Flow and Net Debt

Net debt rose during the period by £3.4m to £66.4m. Cash generated from operations was £8.4m (2003: £5.5m). Net investment consumed £8.5m and stakeholder cash flows (interest, tax, dividends and equity issues) represented a net outflow of £3.3m.

Capital expenditure of £5.7m primarily consisted of expenditure on new capacity, principally the 3 homes opened in March 2004 (in Islington, Hillingdon and Surrey), and Whitefarm Lodge in Richmond.

Interest payable, including capitalised interest, was covered 4.2 times by earnings before interest, tax, depreciation and amortisation ("EBITDA") compared with 3.9 times in 2003 (measured against EBITDA before RIDP costs).

Review of Operations

Residential Care

Six months ended

31 March	2004 £000	2003 £000
Turnover	39,306	34,111
Operating profit	5,812*	5,353**
Operating margin	14.8%	15.7%

* Before goodwill amortisation

** Before goodwill amortisation and RIDP

Overall growth in turnover of 15% reflected organic growth of around 8%. Corvedale, the children's business acquired in September 2003, added a further 7% more. Operating profit increased by 9% with around 2% coming from children's services and organic growth of 7%.

The operating margin in the ongoing residential division was broadly comparable to 2003, with the overall performance reflecting the effect of the currently lower margin children's activity, which we anticipate improving as this business area develops.



Three new elderly care units, in Islington (Muriel Street – 60 beds, 57 contracted), Hillingdon (Franklin House – 66 beds, all contracted) and Surrey (Redwood – 50 beds, 40 contracted), opened as planned in March 2004. The period benefited from a full 6 months trading from the Rosebank high dependency mental health nursing home in Reading that opened in July 2003 (12 beds, all contracted).

Average fee rates during the period increased by around 5% with the improvement of fee levels for non-contract beds continuing to be a key target. At the period end the number of beds totalled 2,892 (30 September 2003: 2,716).

Whitefarm Lodge, in Richmond, is due to open as planned towards the end of the current financial year. The second Islington home, Highbury New Park, is due to open around October 2005.

The contract with the London Borough of Hammersmith & Fulham (158 beds in two homes, 130 contracted, plus 32 sheltered housing units, all contracted, and 540 hours per week of homecare) was signed in March 2004. The first home has now received planning permission and will commence build in August 2004. The build programme is planned to be around 12 months for the first home and a further 6 months for the second. The total capital investment for this project will be £10.9m.

The contract for a forensic step-down mental health facility with Croydon Primary Care NHS Trust was signed in December 2003, but planning issues have so far prevented the commencement of building. It is possible that an alternative site for this project may be required and some delay in project commencement is to be expected.

Care UK is one of three preferred providers selected to share in the reprovision of Birmingham City Council's residential care homes for older people. The Council currently provides more than 1,000 beds and day care services in 28 care homes throughout the City, which are in need of redevelopment. Detailed work with the Council will now begin to determine the final shape of the required services.

In line with the group's strategy of investing in higher added value specialist services, Care UK announced on 18 May 2004 that it had acquired Althea Park Ltd ("Althea"), a specialist provider of residential care to adolescent and adult women with eating disorders or who are prone to self-harm. Althea is based in Stroud in Gloucestershire and currently operates 3 units with a combined capacity of 20 places. The business has been acquired for a total maximum consideration of £5.1m, which has been funded from the group's existing borrowing facilities.

operations and financial review

continued

Community Care

Six months ended

31 March	2004	2003
	£000	£000
Turnover	24,650	20,114*
Operating profit**	1,544	1,230
Operating margin	6.3%	6.1%

* As restated (see Note 1)

** Before goodwill amortisation

Community Care showed turnover growth of 23% and an improvement of 26% in operating profit over the previous year.

The turnover figure for 2003 has been restated to reflect the minor change of accounting policy in respect of agency branches set out more fully in Note 1. This change has no effect on operating profit.

Premiere Homecare contributed for the full 6 months in the current year, compared with just under 3 months in the prior year. Consistent with our strategy of geographic expansion in Homecare, Megacare, based in Lincoln, was acquired late in 2003.

Across the division organic growth was 14% in turnover and 15% in operating profit. We are pleased to have achieved this level of organic growth, but in Homecare we would expect to grow at a lower rate during the second half recognising the strong second half performance in 2003.

During the period the division achieved a number of notable Homecare contract wins and extensions, including Stockton-on-Tees, Nottinghamshire, North Somerset and the London Borough of Wandsworth.

The learning disabilities supported living business showed further strong growth in the period, with 349 service users being cared for at March 2004 (September 2003: 342).

New services commenced in Argyll and Bute and an expanded contract in Staffordshire was signed during the period.

Market conditions for the group's Specialist Recruitment business remained challenging. The business gained approval during the period as a provider to HM Prisons. Whilst this is a welcome development, this new service has not yet impacted on profitability. The business remains outside the principal NHS National Framework. The next opportunity to be admitted to this Framework is expected to arise later this year.

Acute care

The group's 50% owned joint venture,, Care UK Afrox Healthcare ("CUAH"), signed the first of its contracts to run an Independent Sector Treatment Centre ("ISTC"), in Trent/South Yorkshire, in March 2004. Care UK announced on 18 May 2004 the signing of the second ISTC contract by CUAH, in Plymouth. Both of these contracts are to provide orthopaedic surgery and, for Trent/South Yorkshire, outpatient treatment and post-operative care.

The principal Trent/South Yorkshire contract is expected to be operational in April 2005; an interim contract, utilising operating theatres in NHS hospitals in Ilkeston and Bassetlaw, commenced in April 2004. This contract will continue until the commencement of operations of the main contract and is proceeding well with good clinical outcomes and patient satisfaction.

The main Trent/South Yorkshire contract has aggregate turnover of around £100m over the 5 year initial term.

The second contract, for the ISTC in Plymouth, is expected to commence operations in March 2005. There is no interim contract in this case.

The contract has aggregate turnover over the initial 5 year term of £57m.

As indicated previously, the case mix for the Maidstone project, for which CUAH remains preferred bidder, has changed to include renal dialysis and chemotherapy, as well as general surgery. Discussions continue to agree a mutually acceptable service and commercial solution.

The capital investment for these 3 projects will total around £36m and will primarily be provided as limited recourse funding to the joint venture. The group's required total cash investment, for all 3 projects, will be of the order of £4m.

The next wave of ISTC projects is expected to be announced shortly by the Department of Health. It is anticipated that the scale of this wave will be significantly greater than the first wave.

During the period an operating loss of £0.3m was reported as the group's share of the initial costs of the ISTC joint venture, including development costs for this project incurred by the group.

Strategy

Care UK's goal is to be the UK's leading provider of a range of health and social care solutions to the NHS and Social Services. To achieve acceptable margins, our focus is on developing specialist or integrated services that add sustained value to purchasers and benefit to patients and service users.

As well as expanding existing residential and homecare services, opportunities are targeted for the further growth of our services to the elderly that include significant elements of residential, intermediate and homecare, that can be integrated to minimise hospital admissions.

In the specialist areas of learning disabilities, mental health and children's care, our strategy is to increase substantially the scale of our offering by developing high quality essential services both organically and through selective acquisition.

As the acute and primary care markets continue to open up for the private sector, Care UK seeks to be a leading provider of such services as a result of understanding and meeting the Government's needs and objectives and developing innovative solutions and partnerships.

Outlook

Care UK has followed a strategy of working in partnership, through long term contracts, with the public sector for over 10 years. The Government's commitment to increased contracting with the private sector for health and social care provision is, therefore, very encouraging.

The scale of opportunity arising from this change in market structure is substantial and is reflected in Care UK's current pipeline and growth prospects.

Mike Parish
Chief Executive

Paul Humphreys
Finance Director

18 May 2004

unaudited interim results

for the six months ended 31 March 2004

	6 months to 31 March 2004	6 months to 31 March 2003 restated (note 1) £000	Year to 30 Sept 2003 restated (note 1) £000
Turnover	£000		
Continuing operations	63,650	54,225	114,882
Acquisitions	306	–	–
Cost of sales	63,956 (48,164)	54,225 (43,445)	114,882 (90,211)
Gross profit	15,792	10,780	24,671
Administrative expenses	(9,952)	(7,287)	(14,932)
Operating profit before goodwill amortisation			
Continuing operations	6,237	3,790	10,343
Acquisitions	56	–	–
Goodwill amortisation			
Continuing operations	(444)	(297)	(604)
Acquisitions	(9)	–	–
Operating profit			
Continuing operations	5,793	3,493	9,739
Acquisitions	47	–	–
Operating loss: share of joint venture	5,840 (61)	3,493 –	9,739 –
Operating profit: group and share of joint venture	5,779	3,493	9,739
Net interest payable and similar items	(1,812)	(1,746)	(3,471)
Profit on ordinary activities before taxation	3,967	1,747	6,268
Taxation	(1,498)	(673)	(2,138)
Profit on ordinary activities after taxation	2,469	1,074	4,130
Minority interests	(19)	–	–
Profit attributable to shareholders	2,450	1,074	4,130
Dividends	(472)	(442)	(1,407)
Retained profit	1,978	632	2,723
Earnings per share			
Basic	4.89p	2.19p	8.36p
Diluted	4.87p	2.18p	8.35p
Basic (before goodwill amortisation)	5.77p	2.78p	9.54p
Diluted (before goodwill amortisation)	5.74p	2.76p	9.52p

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

There were no other recognised gains and losses in the periods above.

All results derive from continuing operations.

unaudited group balance sheet

as at 31 March 2004

	6 months to 31 March 2004	6 months to 31 March 2003	Year to 30 Sept 2003 restated (note 1)
	£000	£000	£000
Fixed assets			
Intangible assets	16,128	11,031	15,975
Tangible assets	99,250	92,021	94,626
Investments: Joint Venture			
Share of gross assets	1,212	–	27
Share of gross liabilities	(1,264)	–	(31)
Goodwill	153	–	30
Loans to joint venture	1,500	–	62
	1,601	–	88
Investments: other	40	40	40
	117,019	103,092	110,729
Current assets			
Stocks and work in progress	707	274	744
Debtors	15,147	15,698	17,648
Cash at bank and in hand	1,543	1,711	3,450
	17,397	17,683	21,842
Creditors			
Amounts falling due within one year	(16,696)	(18,051)	(21,916)
Net current assets/(liabilities)	701	(368)	(74)
Total assets less current liabilities	117,720	102,724	110,655
Creditors			
Amounts falling due after more than one year	(69,154)	(60,925)	(63,994)
Provisions for liabilities and charges	(4,594)	(4,525)	(4,486)
Net assets	43,972	37,274	42,175
Capital and reserves			
Called up share capital	5,063	4,925	5,047
Share premium account	5,263	3,339	5,034
Shares to be issued	1,352	–	1,352
Revaluation reserve	95	95	95
Profit and loss account	33,446	28,915	31,228
Investment in own shares	(1,387)	–	(702)
Equity shareholders' funds	43,832	37,274	42,054
Minority interests: equity interests	140	–	121
	43,972	37,274	42,175

unaudited group cash flow statement

for the six months ended 31 March 2004

	6 months to 31 March 2004 £000	6 months to 31 March 2003 £000	Year to 30 Sept 2003 £000
Cash inflow from operating activities	8,426	5,535	10,983
Returns on investments and servicing of finance			
Interest paid	(1,387)	(1,742)	(3,133)
Interest received	51	9	20
Net cash outflow from returns on investments and servicing of finance	(1,336)	(1,733)	(3,113)
Taxation			
UK Corporation tax paid	(1,224)	(686)	(821)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets	(5,728)	(3,701)	(8,856)
Proceeds from sale of tangible fixed assets	30	836	2,425
Investment in own shares	(615)	–	(702)
Investment in joint venture	(123)	–	–
Loans to joint venture	(1,438)	–	(62)
Net cash outflow from capital expenditure and financial investment	(7,874)	(2,865)	(7,195)
Acquisitions			
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	(650)	(800)	(2,734)
Net cash outflow from acquisitions	(650)	(800)	(2,734)
Equity dividends paid	(958)	(834)	(1,282)
Cash outflow before financing	(3,616)	(1,383)	(4,162)
Financing			
Issue of ordinary share capital	245	150	951
New secured loans	6,500	606	1,530
Repayments of amounts borrowed	(1,385)	(1,095)	(790)
Net cash inflow/(outflow) from financing	5,360	(339)	1,691
Increase/(decrease) in net cash in the period	1,744	(1,722)	(2,471)

other consolidated primary statements

for the six months ended 31 March 2004

Reconciliation of net cash flow to movement in net debt

	6 months to 31 March 2004 £000	6 months to 31 March 2003 £000	Year to 30 Sept 2003 £000
Net debt at start of period	63,048	59,475	59,475
(Increase)/decrease in net cash for the period	(1,744)	1,722	2,471
New secured loans	6,500	606	1,530
Repayment of amounts borrowed	(1,385)	(1,095)	(790)
Debt in acquired subsidiary undertaking	–	–	362
Increase in net debt during period	3,371	1,233	3,573
Net debt at end of period	66,419	60,708	63,048

Reconciliation of movement in shareholders' funds

	6 months to 31 March 2004 £000	6 months to 31 March 2003 £000	Year to 30 Sept 2003 restated (note 1) £000
Opening shareholders' funds as previously reported	41,182	36,492	36,492
Prior period adjustments (note 1)	872	–	–
Opening shareholders' funds as restated	42,054	36,492	36,492
Profits attributable to shareholders	2,450	1,074	4,130
Dividends	(472)	(442)	(1,407)
Issue of shares	245	150	1,967
Shares to be issued	–	–	1,352
Investment in own shares	(445)	–	(480)
Closing shareholders' funds	43,832	37,274	42,054

notes

1. Accounting Policies

The results for the six months ended 31 March 2004 have been prepared on the basis of the accounting policies set out on page 36 of the 2003 Annual Report as amended for the following:

- UITF Abstract 38 was published in December 2003 and requires that all investments in own shares are included within Shareholders' Funds. As at 30 September 2003 the group's Employee Benefit Trust ("EBT") held shares with an original acquisition cost of £702,000 in connection with the Long Term Incentive Plan ("LTIP"). These shares are shown in shareholders' funds as "investment in own shares". The accrual relating to the cumulative amount charged to the profit and loss account in respect of awards made under the LTIP in 2003 of £222,000 has been offset against the profit and loss reserve. The balance sheet as at 30 September 2003 has been restated by £480,000 to reflect these changes. The balance sheet as at 31 March 2003 is unchanged as the LTIP scheme, and the EBT, only came into operation in August 2003.
- Application Note G of FRS 5 ("FRS 5G") was published in December 2003 and deals with revenue recognition in a number of special situations. Within its Homecare business the group operates a number of branches that have previously been treated as agency businesses, reporting commission-only turnover. In reviewing these branches against the criteria set out in FRS 5G the group has concluded that it is now more appropriate to report the gross amount of turnover earned. The adjustment to the prior year interim turnover is £2,675,000 and to the prior year full year turnover is £6,733,000. This revision has no effect on reported profits.
- The group now accounts for deferred or contingent consideration that must contractually be satisfied by the issue of new Care UK shares, in the balance sheet as "Shares to be issued". The amount included is the fair value of the group's estimate of the consideration that will become due under the terms of the related acquisition agreement. Currently, the only amounts included relate to Corvedale Holdings, acquired in September 2003. The balance sheet as at September 2003 has been restated for this change with £1,352,000 being included as "Shares to be issued" and a corresponding reduction in creditors.

The total effect of the amendments described above is an increase in the net assets at 30 September 2003 of £872,000. There is no change to the profit before tax as previously stated.

2. Segmental analysis

Analysis by class of business:	Turnover			Operating profit		
	6 mths to 31 March 2004 £000	6 mths to 31 March 2003 restated (note 1) £000	Year to 30 Sept 2003 restated (note 1) £000	6 mths to 31 March 2004 £000	6 mths to 31 March 2003 £000	Year to 30 Sept 2003 £000
Residential Care	39,306	34,111	70,259	5,812	5,353	11,495
Community Care*	24,650	20,114	44,623	1,544	1,230	3,388
Acute Care	–	–	–	(254)	–	–
Central costs	–	–	–	(870)	(641)	(1,543)
Total before goodwill amortisation and revenue investment in development projects	63,956	54,225	114,882	6,232	5,942	13,340
Goodwill amortisation				(453)	(297)	(604)
Total before revenue investment in development projects				5,779	5,645	12,736
Revenue investment in development projects				–	(2,152)	(2,997)
Total operating profit				5,779	3,493	9,739

*Includes turnover of £306,000 and operating profit of £56,000 in respect of acquisitions in the period.

3. Taxation

Taxation for the period has been provided for at the estimated effective tax rate for the year to 30 September 2004.

4. Earnings per share

The calculation of earnings per share is based on a weighted average of 50,075,594 ordinary shares (2003: 49,138,878) in issue during the six month period ended 31 March 2004 and on £2,887,000 and £2,450,000 (2003: £1,371,000 and £1,074,000 respectively), being the profit attributable to ordinary shareholders before and after goodwill respectively.

The diluted earnings per share is based on a weighted average of 50,303,303 ordinary shares (2003: 49,358,018) calculated in accordance with FRS 14 which assumes that all dilutive options will be exercised. The profit attributable to ordinary shareholders before and after goodwill respectively of £2,887,000 and £2,450,000 (2003: £1,371,000 and £1,074,000 respectively), has been calculated on a similar basis.

5. Reconciliation of operating profit to cash flow from operating activities

	6 months to 31 March 2004 £000	6 months to 31 March 2003 £000	Year to 30 Sept 2003 £000
Reconciliation of operating profit to cash flow from operating activities			
Operating profit	5,840	3,493	9,739
Depreciation	1,569	1,360	2,794
Goodwill amortisation	453	297	604
Loss on disposal of fixed assets	18	323	464
Decrease in stocks	37	554	86
Decrease/(increase) in debtors	2,234	(2,190)	(4,259)
(Decrease)/increase in creditors	(1,725)	1,698	1,555
Cash inflow from operating activities	8,426	5,535	10,983

6. Dividend

The interim dividend of 0.95p per ordinary share will be paid on 9 July 2004 to shareholders on the register on 25 June 2004.

7. The comparative figures for the financial year ended 30 September 2003 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

8. Copies of this report are being sent to shareholders. Further copies may be obtained from the Company's registered office, Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB.

The Internet

Our website address is www.careuk.com. From this site you may access our financial reports and presentations, recent press releases and details about the company and its operations.

independent review report by KPMG Audit Plc to Care UK Plc

Introduction

We have been engaged by the company to review the financial information set out on pages 6 to 11 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2004.

KPMG Audit Plc

Chartered Accountants
Ipswich
18 May 2004

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Directors

John Nash

Mike Parish

Paul Humphreys

Sir Tim Chessells

Lesley James

Fritz Ternofsky

Non-Executive Chairman

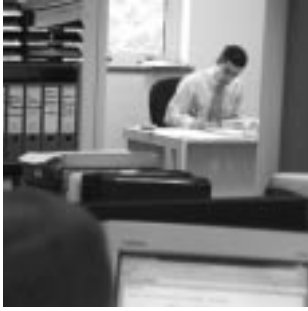
Chief Executive

Finance Director

Non-Executive

Non-Executive

Senior Independent Non-Executive



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