

**Care UK Plc**  
(‘Care UK’ or ‘the Group’)

**Restatement of Financial Information under IFRS**

As part of its preparation for the transition to International Financial Reporting Standards (‘adopted IFRS’) as adopted by the European Union (‘EU’), Care UK Plc, is today announcing the impact of adopted IFRS on its results for the year ended 30 September 2005, the six months ended 31 March 2005 and the transitional balance sheet as at 1 October 2004.

Care UK has to date prepared its consolidated financial statements in compliance with UK Generally Accepted Accounting Practice (‘UK GAAP’). From 1 October 2005 Care UK is required to report its consolidated financial statements under adopted IFRS. Care UK’s first reported result under adopted IFRS will be for the six months ending 31 March 2006, to be announced on 22 May 2006, and the first full year reporting under adopted IFRS will be the year ending 30 September 2006.

**Highlights**

Conversion to adopted IFRS is an accounting change which will have no significant overall impact on Care UK’s earnings before interest, tax and amortisation (‘EBITA’) financial performance and does not affect its cash generation.

The impact of adopted IFRS on Care UK is most notable in the following areas:

- Business combinations and the treatment of related goodwill and intangible assets;
- Accounting for equity-settled share-based payments such as share options;
- Pension accounting;
- Accounting for proposed dividends;
- Reporting the group’s share of results of joint venture undertakings; and
- Accounting for deferred taxation.

In addition, under ‘IFRS 1 – First Time Adoption of IFRS’, Care UK is not required to adopt ‘International Accounting Standard (‘IAS’) 32 – Financial Instruments: Disclosure and Presentation’ and ‘IAS 39 – Financial Instruments: Recognition and Measurement’ until 1 October 2005. The group’s hedging strategy is unchanged under adopted IFRS. There will be no significant impact on the group’s income statement, balance sheet or statement of cash flows as a result of the adoption of IAS 32 and 39.

The effect of adopted IFRS on Care UK’s reported profits for the year ended 30 September 2005 is to increase operating profit from £17.5m to £18.2m predominantly due to the removal of the requirement to amortise goodwill (2005 £1.2m). Net assets have increased from £53.2m to £55.3m predominantly due to the net impact of recognising a deficit in the group’s pension scheme (£0.6m net of tax), not accruing for dividends declared post year end (£1.2m) and not amortising goodwill.

Results for the year ended 30 September 2005	<b>UK GAAP</b>	<b>Goodwill and intangibles</b>	<b>Share option expense</b>	<b>Pension costs</b>	<b>Joint venture presentation adjustment</b>	<b>Deferred taxation</b>	<b>Adopted IFRS</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Operating profit: group and share of joint venture	<b>17,547</b>	1,143	(59)	(33)	(448)	-	<b>18,150</b>
Profit attributable to equity shareholders	<b>7,743</b>	1,119	(42)	(23)	-	(14)	<b>8,783</b>
Basic earnings per share	<b>15.41p</b>	2.23p	(0.08p)	(0.05p)	-	(0.03p)	<b>17.48p</b>
Diluted earnings per share	<b>15.15p</b>	2.19p	(0.08p)	(0.05p)	-	(0.03p)	<b>17.18p</b>

Net assets as at 30 September 2005	UK GAAP	Goodwill and intangibles	Share option expense	Pension liability	Dividends declared post year end	Deferred taxation	Adopted IFRS
	£000	£000	£000	£000	£000	£000	£000
Net assets	53,224	1,119	292	(556)	1,157	64	55,300

The effect of adopted IFRS is included in this summary in respect of the following financial information:

- Opening adopted IFRS balance sheet as at 1 October 2004;
- Six months ended 31 March 2005; and
- Year ended 30 September 2005.

The restated financial information for the year ended 30 September 2005 has been audited by KPMG Audit plc whose audit opinion is attached in appendix 4. The financial information for the period ended 31 March 2005 has been reviewed by KPMG Audit Plc whose review opinion is attached in appendix 5.

The information set out in this summary can be downloaded from the company's website at [www.careuk.com/IFRS.asp](http://www.careuk.com/IFRS.asp)

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Notes to editors:

Care UK Plc ([www.careuk.com](http://www.careuk.com)) is a leading provider of innovative, person-centred care to people of all ages and with a wide variety of needs. Working in close partnership with local authorities, Primary Care Trusts and NHS Trusts, the company delivers highly specialised, value for money services and care pathways, always focused on maximising quality of life.

Care UK has four divisions – Residential Care, Community Care, Specialist Care and Clinical Care. With around 300 locations across the UK, Care UK employs more than 8,500 staff and provides solutions to numerous public sector bodies such as Local Authorities, Primary Care Trusts and NHS Trusts. Over 95% of Care UK's turnover is generated from working with the public sector.

**Care UK Plc**  
(‘Care UK’ or ‘the Group’)

**Restatement of Financial Information under IFRS**

**Introduction**

On 21 November 2005, Care UK reported its financial results for the year ended 30 September 2005, prepared for the last time under UK GAAP. Going forward Care UK will prepare its consolidated financial statements in accordance with IFRS as adopted by the EU. Care UK’s first reported adopted IFRS results will be for the six months to 31 March 2006, to be announced on 22 May 2006, and the group’s first annual report under adopted IFRS will be for the year ending 30 September 2006.

The net impact on the reporting of Care UK’s profits before amortisation of goodwill and intangibles is not significant and the underlying performance of the business and its cash flows is unaffected.

This summary describes for investors the key impacts of the conversion from UK GAAP to adopted IFRS on Care UK’s results for the year ended 30 September 2005 and management’s key judgements in making the transition to adopted IFRS.

Details of the basis of preparation, decisions made in respect of transitional arrangements and Care UK’s accounting policies under adopted IFRS are included in appendices to this summary.

**Year ended 30 September 2005**

The adopted IFRS adjustments to the 30 September 2005 reported results are detailed in this summary. In addition the opening adopted IFRS balance sheet as at 1 October 2004 and the restated adopted IFRS financial information as at 31 March 2005 are also included in this summary.

**Key accounting changes**

Adopted IFRS is to be implemented by all EU listed companies for reporting periods commencing on or after 1 January 2005. Consequently, Care UK is first required to apply adopted IFRS in its financial statements for the year ending 30 September 2006, including the interim results for the six months ending 31 March 2006.

The principal effects of adopted IFRS on the group’s financial statements are expected to be as set out below. However, it should be noted that adopted IFRS is itself continuing to evolve as an accounting framework and it is possible that certain of the accounting treatments identified in this summary may be subject to further change in the future as this framework develops.

*Business Combinations*

- i) **Goodwill**  
‘IFRS 3 – Business Combinations’ does not permit the periodic amortisation of goodwill through the income statement. Instead, goodwill is carried at cost and reviewed for impairment annually and also when there is any indication that the carrying value may not be recoverable. Under the transitional arrangements of ‘IFRS 1 – First Time Adoption of IFRS’, the group has decided to apply the standard prospectively from 1 October 2004. Consequently periodic amortisation of goodwill through the income statement will cease. Under UK GAAP goodwill was amortised over its estimated useful life, which did not exceed twenty years.

- ii) Intangible assets  
New intangible assets created under 'IFRS 3 – Business Combinations' relate to customer relationships and are deemed to have a finite life with no residual value. Customer relationships are amortised over their estimated useful economic lives, which will not exceed ten years. Under UK GAAP, intangible assets were not separately recognised from goodwill.

The combined effect for both goodwill and intangibles on the income statement in the year ended 30 September 2005 is to increase operating profit and profit for the period by £1.1m and to increase net assets as at 30 September 2005 by the same amount.

#### *Share-based payments*

Under UK GAAP, the cost of annual awards to participants of the Long Term Incentive Plan ('LTIP') that took the form of shares or rights to shares were recognised over the period to which each of the performance criteria were measured and benefits accrued. No such cost was incurred on the company's other share-based awards, such as the Save As You Earn ('SAYE') scheme.

Under 'IFRS 2 – Share-based Payment', the group will recognise a charge to the income statement representing the fair value of any equity-settled share-based payments, i.e. awards made under its share option schemes. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The amount recognised as an expense is adjusted to reflect the number of share options that are expected to vest. Under the transitional arrangements of 'IFRS 1 – First Time Adoption of IFRS', the group intends to apply this standard to share options granted since 7 November 2002.

The net effect on the income statement in the year ended 30 September 2005 is to decrease operating profit by £0.1m. There is no significant effect on profit for the period in the year ended 30 September 2005. The increase in net assets as at 30 September 2005 is £0.3m.

#### *Pension accounting*

Under UK GAAP ('Statement of Standard Accounting Practice 24 – Accounting for pension costs') contributions to defined benefit pension schemes were charged to the income statement so as to spread the cost of pensions over the employee's working lives with the group. The assets of such schemes were held separately from those of the group in independently administered managed funds.

Under 'IAS 19 – Employee Benefits' the balance sheet reflects the full value of any surplus or deficit in a defined benefit pension scheme. IAS 19 permits actuarial gains and losses to be recognised directly in full (without the application of the 'corridor method') in equity through the Statement of Recognised Income and Expense with the charge in the income statement reflecting the employer's portion of past and current service costs and financing on the plan assets and liabilities.

There is no significant effect on the income statement in the year ended 30 September 2005 and net assets as at 30 September 2005 decreased by £0.6m.

#### *Proposed dividends*

'IAS 10 – Events after the Balance Sheet Date' prohibits the recording of a balance sheet liability in relation to a proposed dividend distribution until the distribution has either been paid or formally approved by shareholders. Hence adopted IFRS financial statements only include dividends that are declared. Previously under UK GAAP such dividends were accrued in the balance sheet.

Additionally under adopted IFRS dividends are presented in the statement of changes in equity. Previously under UK GAAP dividends were included on face of the income statement.

The net effect is to increase net assets as at 30 September 2005 by £1.2m.

#### *Results of joint venture undertakings*

The group will report the results of joint venture undertakings using the equity method as permitted under 'IAS 31 – Interests in Joint Ventures' and as currently required under UK GAAP. However, there are some differences between adopted IFRS and UK GAAP. Adopted IFRS requires the group's share of operating profit, interest and tax from its equity accounted joint venture undertakings to be reported as a single line item on the face of the income statement, whereas UK GAAP requires the group's share of these items to be reported separately under each line item within the income statement.

Since this is a presentational adjustment only, there is no net effect on reported profit for the year ended 30 September 2005 or net assets of the group as at 30 September 2005.

#### *Deferred tax*

'IAS 12 – Income Taxes' differs from UK GAAP by using a balance sheet based methodology. Changes in the accounting treatment of a number of balance sheet items will impact the deferred tax charge and liability. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity. Deferred tax adjustments are also required in respect of certain of the adopted IFRS transitional accounting adjustments noted above, principally against the equity-settled share-based payment expense and pension costs.

There is no significant effect on the income statement in the year ended 30 September 2005 and net assets as at 30 September 2005 increased by £0.1m.

#### *Derivative financial instruments*

Under 'IFRS 1 – First Time Adoption of IFRS', the group is not required to adopt 'IAS 32 – Financial Instruments: Disclosure and Presentation' and 'IAS 39 – Financial Instruments: Recognition and Measurement' until 1 October 2005. The group's hedging strategy is unchanged under adopted IFRS.

There will be no significant impact on the group's income statement, balance sheet or statement of cash flows as a result of the adoption of IAS 32 and 39, effective from 1 October 2005.

#### *Properties classified as held for sale*

Under UK GAAP there was no specific accounting standard dealing with the recognition, measurement and presentation of non-current assets held for sale. With the adoption of 'IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations' certain properties that were classified within current assets have now been reclassified as property, plant and equipment. Additionally, under IFRS 5 non-current assets held for sale are required to be separately presented on the face of the balance sheet and not included within another asset category.

There is no net effect on reported profit for the year ended 30 September 2005 or net assets of the group as at 30 September 2005.

#### **Future changes**

Care UK is monitoring proposed changes to adopted IFRS, assessing how best practice develops and gauging their impact on the group's financial statements. Shareholders will be kept informed as to how such changes may impact the group's financial statements.

#### **Accounting policies**

A summary of the revised accounting policies expected to be adopted under adopted IFRS is included in appendix 3.

**IFRS financial information and reconciliations**

The following adopted IFRS financial information and reconciliations are provided below:

- 1 October 2004 – opening adopted IFRS balance sheet;
- 31 March 2005 – balance sheet, income statement, statement of recognised income and expense and statement of cash flows; and
- 30 September 2005 – balance sheet, income statement, statement of recognised income and expense and statement of cash flows.

## Care UK Plc

### 1 Opening adopted IFRS balance sheet as at 1 October 2004

#### 1.1 Consolidated balance sheet As at 1 October 2004

	£000
<b>Assets</b>	
Goodwill	19,618
Other	282
<b>Total intangible assets</b>	<b>19,900</b>
Property, plant and equipment	104,707
Investment in joint venture	1,718
Other investments	40
<b>Total non-current assets</b>	<b>126,365</b>
Inventories	221
Trade and other receivables	19,290
Cash and cash equivalents	1,091
Properties classified as held for sale	135
<b>Total current assets</b>	<b>20,737</b>
<b>Total assets</b>	<b>147,102</b>
<b>Liabilities</b>	
Overdrafts	(1,031)
Bank loans	(1,921)
Trade and other payables	(18,657)
Current tax liabilities	(1,551)
<b>Total current liabilities</b>	<b>(23,160)</b>
<b>Non-current liabilities</b>	
Bank loans	(69,259)
Other non-current liabilities	(1,490)
Deferred tax liabilities	(4,554)
<b>Total non-current liabilities</b>	<b>(75,303)</b>
<b>Total liabilities</b>	<b>(98,463)</b>
<b>Net assets</b>	<b>48,639</b>
<b>Equity</b>	
Issued share capital	5,081
Share premium	5,548
Shares to be issued	1,352
Retained earnings	36,470
<b>Total equity attributable to equity holders of the parent</b>	<b>48,451</b>
<b>Minority interest</b>	<b>188</b>
<b>Total equity</b>	<b>48,639</b>

# Care UK Plc

## 1 Opening adopted IFRS balance sheet as at 1 October 2004

### 1.2 Reconciliation of equity under UK GAAP to IFRS As at 1 October 2004

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>Reconciliation of equity as at 1 October 2004</b>				
<b>Assets</b>				
Goodwill		19,618	-	19,618
Other	a)	-	282	282
<b>Total intangible assets</b>		<b>19,618</b>	<b>282</b>	<b>19,900</b>
Property, plant and equipment	b)	104,362	345	104,707
Investment in joint venture	a)	2,000	(282)	1,718
Other investments		40	-	40
<b>Total non-current assets</b>		<b>126,020</b>	<b>345</b>	<b>126,365</b>
Inventories	b)	701	(480)	221
Trade and other receivables		19,290	-	19,290
Cash and cash equivalents		1,091	-	1,091
Properties classified as held for sale	b)	-	135	135
<b>Total current assets</b>		<b>21,082</b>	<b>(345)</b>	<b>20,737</b>
<b>Total assets</b>		<b>147,102</b>	<b>-</b>	<b>147,102</b>
<b>Liabilities</b>				
Overdrafts		(1,031)	-	(1,031)
Bank loans		(1,921)	-	(1,921)
Trade and other payables	c)	(19,724)	1,067	(18,657)
Current tax liabilities		(1,551)	-	(1,551)
<b>Total current liabilities</b>		<b>(24,227)</b>	<b>1,067</b>	<b>(23,160)</b>
<b>Non-current liabilities</b>				
Bank loans		(69,259)	-	(69,259)
Other non-current liabilities	d)	(925)	(565)	(1,490)
Deferred tax liabilities	d), e), f)	(4,897)	343	(4,554)
<b>Total non-current liabilities</b>		<b>(75,081)</b>	<b>(222)</b>	<b>(75,303)</b>
<b>Total liabilities</b>		<b>(99,308)</b>	<b>845</b>	<b>(98,463)</b>
<b>Net assets</b>		<b>47,794</b>	<b>845</b>	<b>48,639</b>
<b>Equity</b>				
Issued share capital		5,081	-	5,081
Share premium		5,548	-	5,548
Shares to be issued		1,352	-	1,352
Revaluation reserve	g)	95	(95)	-
Retained earnings	c), d), e), f), g), h)	36,917	(447)	36,470
Investment in own shares	h)	(1,387)	1,387	-
<b>Total equity attributable to equity holders of the parent</b>		<b>47,606</b>	<b>845</b>	<b>48,451</b>
<b>Minority interest</b>		<b>188</b>	<b>-</b>	<b>188</b>
<b>Total equity</b>		<b>47,794</b>	<b>845</b>	<b>48,639</b>

#### Notes

The key accounting changes are set out on pages 3 to 6 and are summarised as follows:

- Being the reclassification of intangible assets.
- Being the reclassification of assets held for sale previously included in inventory.
- Being the adjustment for dividends declared after balance sheet date.
- Being the inclusion of the defined benefit pension plan deficit and related tax.
- Being the inclusion of an expense for equity-settled share-based payments (share options).
- Being sundry adjustments to deferred taxation.
- Being the transfer of an historic revaluation reserve on transition to IFRS.
- Being the reclassification of investment in own shares.

## Care UK Plc

### 2 Interim period 2005

#### 2.1 Consolidated income statement For the six months ended 31 March 2005

	£000
Revenue: group share and share of joint venture	79,081
Less: share of revenue of joint venture	(4,875)
<b>Group revenue</b>	<b>74,206</b>
Cost of sales	(60,532)
<b>Gross profit</b>	<b>13,674</b>
Administrative expenses	(5,747)
Share of loss of joint venture	(381)
<b>Operating profit before financing costs</b>	<b>7,546</b>
Financial expenses	(2,352)
Net financing costs	(2,352)
<b>Profit before tax</b>	<b>5,194</b>
Taxation	(1,825)
<b>Profit for the period</b>	<b>3,369</b>
Attributable to:	
Equity holders of the parent	3,329
Minority interest	40
<b>Profit for the period</b>	<b>3,369</b>
Earnings per share:	
Basic	6.63p
Diluted	6.56p

Refer to table 2.5 for a reconciliation of profit from UK GAAP to IFRS.

## Care UK Plc

### 2 Interim period 2005

#### 2.2 Consolidated statement of recognised income and expense For the six months ended 31 March 2005

	£000
Actuarial gains and losses on defined benefit pension plan	(98)
Deferred taxation on actuarial gains and losses	29
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Net income recognised directly in equity	(69)
Profit for the period	3,369
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<b>Total recognised income and expense for the period</b>	<b>3,300</b>
<b>Attributable to:</b>	
Equity holders of the parent	3,260
Minority interest	40
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<b>Total recognised income and expense for the period</b>	<b>3,300</b>

## Care UK Plc

### 2 Interim period 2005

#### 2.3 Consolidated balance sheet As at 31 March 2005

	£000
<b>Assets</b>	
Goodwill	23,922
Other	1,468
<b>Total intangible assets</b>	<b>25,390</b>
Property, plant and equipment	114,439
Investment in joint venture	1,983
Other investments	40
<b>Total non-current assets</b>	<b>141,852</b>
Inventories	236
Trade and other receivables	21,727
Cash and cash equivalents	1,752
Properties classified as held for sale	71
<b>Total current assets</b>	<b>23,786</b>
<b>Total assets</b>	<b>165,638</b>
<b>Liabilities</b>	
Overdrafts	(1,014)
Bank loans	(2,016)
Trade and other payables	(18,914)
Current tax liabilities	(1,828)
<b>Total current liabilities</b>	<b>(23,772)</b>
<b>Non-current liabilities</b>	
Bank loans	(85,186)
Other non-current liabilities	(1,190)
Deferred tax liabilities	(4,577)
<b>Total non-current liabilities</b>	<b>(90,953)</b>
<b>Total liabilities</b>	<b>(114,725)</b>
<b>Net assets</b>	<b>50,913</b>
<b>Equity</b>	
Issued share capital	5,093
Share premium	5,841
Shares to be issued	1,233
Retained earnings	38,558
<b>Total equity attributable to equity holders of the parent</b>	<b>50,725</b>
<b>Minority interest</b>	<b>188</b>
<b>Total equity</b>	<b>50,913</b>

Refer to table 2.6 for a reconciliation of equity from UK GAAP to IFRS.

## Care UK Plc

### 2 Interim period 2005

#### 2.4 Consolidated cash flow statement For the six months ended 31 March 2005

	£000
<b>Cash flows from operating activities</b>	
Cash generated from operations	6,814
Income taxes paid	(1,358)
<b>Net cash from operating activities</b>	<b>5,456</b>
<b>Cash flows from investing activities</b>	
Payments to acquire property, plant and equipment	(11,644)
Proceeds from sales of property, plant and equipment	559
Interest received	10
Investment in joint venture	(370)
Loans to joint venture	(383)
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	(4,965)
<b>Net cash from investing activities</b>	<b>(16,793)</b>
<b>Cash flows from financing activities</b>	
Proceeds from the issue of share capital	77
Repurchase of own shares	(425)
Proceeds from new secured loans	17,284
Repayments of amounts borrowed	(1,277)
Interest paid	(2,561)
Payment of capital element of finance lease payments	(28)
Dividends paid	(1,055)
<b>Net cash from financing</b>	<b>12,015</b>
<b>Net increase in net cash and cash equivalents</b>	<b>678</b>
Cash and cash equivalents at 1 October	60
<b>Cash and cash equivalents at 31 March</b>	<b>738</b>

There are no material adjustments to the cash flow statement from UK GAAP.

## Care UK Plc

### 2 Interim period 2005

#### 2.5 Reconciliation of profit under UK GAAP to IFRS For the six months ended 31 March 2005

Reconciliation of profit	Note	Profit before financing costs £000	Profit for the period £000
Reported under UK GAAP		6,843	2,760
Pensions	a)	(16)	(11)
Share based payment	b)	61	43
Reversal of goodwill amortisation and additional intangible asset amortisation	c)	592	584
Reclassification of equity accounted joint ventures	d)	66	-
Other adjustments to deferred taxation	e)	-	(7)
<b>Reported under IFRS</b>		<b>7,546</b>	<b>3,369</b>

Reconciliation of profit for the six months ended 31 March 2005	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue: group share and share of joint venture		79,081	-	79,081
Less: share of revenue of joint venture		(4,875)	-	(4,875)
<b>Group revenue</b>		<b>74,206</b>	<b>-</b>	<b>74,206</b>
Cost of sales	a)	(60,516)	(16)	(60,532)
<b>Gross profit</b>		<b>13,690</b>	<b>(16)</b>	<b>13,674</b>
Administrative expenses	b), c)	(6,400)	653	(5,747)
Share of loss of joint venture	d)	(447)	66	(381)
<b>Operating profit before financing costs</b>		<b>6,843</b>	<b>703</b>	<b>7,546</b>
Financial expenses	d)	(2,382)	30	(2,352)
Net financing costs		(2,382)	30	(2,352)
<b>Profit before tax</b>		<b>4,461</b>	<b>733</b>	<b>5,194</b>
Taxation	a), b), c), d), e)	(1,701)	(124)	(1,825)
<b>Profit for the period</b>		<b>2,760</b>	<b>609</b>	<b>3,369</b>

#### Notes

The key accounting changes are set out on pages 3 to 6 and are summarised as follows:

- a) Being the inclusion of the defined benefit pension plan deficit and related tax.
- b) Being the adjustment for equity-settled share-based payments (share options).
- c) Being the reversal of goodwill amortisation and additional intangible amortisation.
- d) Being the reclassification of joint venture profit to include the related tax and interest expense.
- e) Being sundry adjustments to deferred taxation.

# Care UK Plc

## 2 Interim period 2005

### 2.6 Reconciliation of equity under UK GAAP to IFRS As at 31 March 2005

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>Reconciliation of equity as at 31 March 2005</b>				
<b>Assets</b>				
Goodwill	a)	24,360	(438)	23,922
Other	a)	-	1,468	1,468
<b>Total intangible assets</b>		<b>24,360</b>	<b>1,030</b>	<b>25,390</b>
Property, plant and equipment	b)	114,096	343	114,439
Investment in joint venture	a)	2,421	(438)	1,983
Other investments		40	-	40
<b>Total non-current assets</b>		<b>140,917</b>	<b>935</b>	<b>141,852</b>
Inventories	b)	650	(414)	236
Trade and other receivables		21,727	-	21,727
Cash and cash equivalents		1,752	-	1,752
Properties classified as held for sale	b)	-	71	71
<b>Total current assets</b>		<b>24,129</b>	<b>(343)</b>	<b>23,786</b>
<b>Total assets</b>		<b>165,046</b>	<b>592</b>	<b>165,638</b>
<b>Liabilities</b>				
Overdrafts		(1,014)	-	(1,014)
Bank loans		(2,016)	-	(2,016)
Trade and other payables	c)	(19,431)	517	(18,914)
Current tax liabilities		(1,828)	-	(1,828)
<b>Total current liabilities</b>		<b>(24,289)</b>	<b>517</b>	<b>(23,772)</b>
<b>Non-current liabilities</b>				
Bank loans		(85,186)	-	(85,186)
Other non-current liabilities	d)	(511)	(679)	(1,190)
Deferred tax liabilities	a), d), e), f)	(5,070)	493	(4,577)
<b>Total non-current liabilities</b>		<b>(90,767)</b>	<b>(186)</b>	<b>(90,953)</b>
<b>Total liabilities</b>		<b>(115,056)</b>	<b>331</b>	<b>(114,725)</b>
<b>Net assets</b>		<b>49,990</b>	<b>923</b>	<b>50,913</b>
<b>Equity</b>				
Issued share capital		5,093	-	5,093
Share premium		5,841	-	5,841
Shares to be issued		1,233	-	1,233
Revaluation reserve	g)	95	(95)	-
Retained earnings	a), c), d), e), f), g), h)	39,352	(794)	38,558
Investment in own shares	h)	(1,812)	1,812	-
<b>Total equity attributable to equity holders of the parent</b>		<b>49,802</b>	<b>923</b>	<b>50,725</b>
<b>Minority interest</b>		<b>188</b>	<b>-</b>	<b>188</b>
<b>Total equity</b>		<b>49,990</b>	<b>923</b>	<b>50,913</b>

#### Notes

The key accounting changes are set out on pages 3 to 6 and are summarised as follows:

- Being the reclassification of intangible assets and the adjustments to goodwill and intangible asset amortisation.
- Being the reclassification of assets held for sale previously included in inventory.
- Being the adjustment for dividends declared after balance sheet date.
- Being the inclusion of the defined benefit pension plan deficit and related tax.
- Being the adjustment for share-based equity-settled payments (share options).
- Being sundry adjustments to deferred taxation.
- Being the transfer of an historic revaluation reserve on transition to IFRS.
- Being the reclassification of investment in own shares.

## Care UK Plc

### 3 Full year 2005

#### 3.1 Consolidated income statement For the year ended 30 September 2005

	£000
Revenue: group share and share of joint venture	169,225
Less: share of revenue of joint venture	(12,547)
<b>Group revenue</b>	<b>156,678</b>
Cost of sales	(125,842)
<b>Gross profit</b>	<b>30,836</b>
Administrative expenses	(12,476)
Share of loss of joint venture	(210)
<b>Operating profit before financing costs</b>	<b>18,150</b>
Financial income	372
Financial expenses	(5,008)
Net financing costs	(4,636)
<b>Profit before tax</b>	<b>13,514</b>
Taxation	(4,630)
<b>Profit for the year</b>	<b>8,884</b>
Attributable to:	
Equity holders of the parent	8,783
Minority interest	101
<b>Profit for the year</b>	<b>8,884</b>
Earnings per share:	
Basic	17.48p
Diluted	17.18p

Refer to table 3.5 for a reconciliation of profit from UK GAAP to IFRS.

## Care UK Plc

### 3 Full year 2005

#### 3.2 Consolidated statement of recognised income and expense For the year ended 30 September 2005

	£000
Actuarial gains and losses on defined benefit pension plan	(196)
Deferred taxation on actuarial gains and losses	58
<hr/>	
Net income recognised directly in equity	(138)
Profit for the year	8,884
<hr/>	
<b>Total recognised income and expense for the year</b>	<b>8,746</b>
<b>Attributable to:</b>	
Equity holders of the parent	8,645
Minority interest	101
<hr/>	
<b>Total recognised income and expense for the year</b>	<b>8,746</b>

## Care UK Plc

### 3 Full year 2005

#### 3.3 Consolidated balance sheet As at 30 September 2005

	£000
<b>Assets</b>	
Goodwill	23,008
Other	2,228
<b>Total intangible assets</b>	<b>25,236</b>
Property, plant and equipment	126,601
Investment in joint venture	6,408
Other investments	40
<b>Total non-current assets</b>	<b>158,285</b>
Inventories	236
Trade and other receivables	23,935
Cash and cash equivalents	802
Properties classified as held for sale	178
<b>Total current assets</b>	<b>25,151</b>
<b>Total assets</b>	<b>183,436</b>
<b>Liabilities</b>	
Overdrafts	(972)
Bank loans	(1,935)
Trade and other payables	(19,800)
Current tax liabilities	(1,968)
<b>Total current liabilities</b>	<b>(24,675)</b>
<b>Non-current liabilities</b>	
Bank loans	(97,335)
Other non-current liabilities	(851)
Deferred tax liabilities	(5,275)
<b>Total non-current liabilities</b>	<b>(103,461)</b>
<b>Total liabilities</b>	<b>(128,136)</b>
<b>Net assets</b>	<b>55,300</b>
<b>Equity</b>	
Issued share capital	5,100
Share premium	5,965
Shares to be issued	338
Retained earnings	43,648
<b>Total equity attributable to equity holders of the parent</b>	<b>55,051</b>
<b>Minority interest</b>	<b>249</b>
<b>Total equity</b>	<b>55,300</b>

Refer to table 3.6 for a reconciliation of equity from UK GAAP to IFRS.

## Care UK Plc

### 3 Full year 2005

#### 3.4 Consolidated cash flow statement For the year ended 30 September 2005

	£000
<b>Cash flows from operating activities</b>	
Cash generated from operations	19,844
Income taxes paid	(3,421)
<b>Net cash from operating activities</b>	<b>16,423</b>
<b>Cash flows from investing activities</b>	
Payments to acquire property, plant and equipment	(25,592)
Proceeds from sales of property, plant and equipment	590
Interest received	336
Investment in joint venture	(388)
Loans to joint venture	(4,700)
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	(6,706)
<b>Net cash from investing activities</b>	<b>(36,460)</b>
<b>Cash flows from financing activities</b>	
Proceeds from the issue of share capital	210
Repurchase of own shares	(429)
Proceeds from new secured loans	30,319
Repayments of amounts borrowed	(2,256)
Interest paid	(6,418)
Payment of capital element of finance lease payments	(47)
Dividends paid	(1,572)
<b>Net cash from financing</b>	<b>19,807</b>
<b>Net decrease in net cash and cash equivalents</b>	<b>(230)</b>
Cash and cash equivalents at 1 October	60
<b>Cash and cash equivalents at 30 September</b>	<b>(170)</b>

There are no material adjustments to the cash flow statement from UK GAAP.

## Care UK Plc

### 3 Full year 2005

#### 3.5 Reconciliation of profit under UK GAAP to IFRS For the year ended 30 September 2005

Reconciliation of profit	Note	Profit before financing costs £000	Profit for the year £000
Reported under UK GAAP		17,547	7,844
Pensions	a)	(33)	(23)
Share based payment	b)	(59)	(42)
Reversal of goodwill amortisation and additional intangible asset amortisation	c)	1,143	1,119
Reclassification of equity accounted joint ventures	d)	(448)	-
Other adjustments to deferred taxation	e)	-	(14)
<b>Reported under IFRS</b>		<b>18,150</b>	<b>8,884</b>

Reconciliation of profit for the year ended 30 September 2005	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue: group share and share of joint venture		169,225	-	169,225
Less: share of revenue of joint venture		(12,547)	-	(12,547)
<b>Group revenue</b>		<b>156,678</b>	<b>-</b>	<b>156,678</b>
Cost of sales	a)	(125,809)	(33)	(125,842)
<b>Gross profit</b>		<b>30,869</b>	<b>(33)</b>	<b>30,836</b>
Administrative expenses	b), c)	(13,560)	1,084	(12,476)
Share of loss of joint venture	d)	238	(448)	(210)
<b>Operating profit before financing costs</b>		<b>17,547</b>	<b>603</b>	<b>18,150</b>
Financial income		372	-	372
Financial expenses	d)	(5,469)	461	(5,008)
Net financing costs		(5,097)	461	(4,636)
<b>Profit before tax</b>		<b>12,450</b>	<b>1,064</b>	<b>13,514</b>
Taxation	a), b), c), d), e)	(4,606)	(24)	(4,630)
<b>Profit for the year</b>		<b>7,844</b>	<b>1,040</b>	<b>8,884</b>

#### Notes

The key accounting changes are set out on pages 3 to 6 and are summarised as follows:

- a) Being the inclusion of the defined benefit pension plan deficit and related tax.
- b) Being the adjustment for equity-settled share-based payments (share options).
- c) Being the reversal of goodwill amortisation and additional intangible amortisation.
- d) Being the reclassification of joint venture profit to include the related tax and interest expense.
- e) Being sundry adjustments to deferred taxation.

# Care UK Plc

## 3 Full year 2005

### 3.6 Reconciliation of equity under UK GAAP to IFRS As at 30 September 2005

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>Reconciliation of equity as at 30 September 2005</b>				
<b>Assets</b>				
Goodwill	a)	23,675	(667)	23,008
Other	a)	-	2,228	2,228
<b>Total intangible assets</b>		<b>23,675</b>	<b>1,561</b>	<b>25,236</b>
Property, plant and equipment	b)	126,422	179	126,601
Investment in joint venture	a)	6,826	(418)	6,408
Other investments		40	-	40
<b>Total non-current assets</b>		<b>156,963</b>	<b>1,322</b>	<b>158,285</b>
Inventories	b)	593	(357)	236
Trade and other receivables		23,935	-	23,935
Cash and cash equivalents		802	-	802
Properties classified as held for sale	b)	-	178	178
<b>Total current assets</b>		<b>25,330</b>	<b>(179)</b>	<b>25,151</b>
<b>Total assets</b>		<b>182,293</b>	<b>1,143</b>	<b>183,436</b>
<b>Liabilities</b>				
Overdrafts		(972)	-	(972)
Bank loans		(1,935)	-	(1,935)
Trade and other payables	c)	(20,957)	1,157	(19,800)
Current tax liabilities		(1,968)	-	(1,968)
<b>Total current liabilities</b>		<b>(25,832)</b>	<b>1,157</b>	<b>(24,675)</b>
<b>Non-current liabilities</b>				
Bank loans		(97,335)	-	(97,335)
Other non-current liabilities	d)	(57)	(794)	(851)
Deferred tax liabilities	a), d), e), f)	(5,845)	570	(5,275)
<b>Total non-current liabilities</b>		<b>(103,237)</b>	<b>(224)</b>	<b>(103,461)</b>
<b>Total liabilities</b>		<b>(129,069)</b>	<b>933</b>	<b>(128,136)</b>
<b>Net assets</b>		<b>53,224</b>	<b>2,076</b>	<b>55,300</b>
<b>Equity</b>				
Issued share capital		5,100	-	5,100
Share premium		5,965	-	5,965
Shares to be issued		338	-	338
Revaluation reserve	g)	95	(95)	-
Retained earnings	a), c), d), e), f), g), h)	43,293	355	43,648
Investment in own shares	h)	(1,816)	1,816	-
<b>Total equity attributable to equity holders of the parent</b>		<b>52,975</b>	<b>2,076</b>	<b>55,051</b>
<b>Minority interest</b>		<b>249</b>	<b>-</b>	<b>249</b>
<b>Total equity</b>		<b>53,224</b>	<b>2,076</b>	<b>55,300</b>

#### Notes

The key accounting changes are set out on pages 3 to 6 and are summarised as follows:

- Being the reclassification of intangible assets and the adjustments to goodwill and intangible asset amortisation.
- Being the reclassification of assets held for sale previously included in inventory.
- Being the adjustment for dividends declared after balance sheet date.
- Being the inclusion of the defined benefit pension plan deficit and related tax.
- Being the adjustment for share-based equity-settled payments (share options).
- Being sundry adjustments to deferred taxation.
- Being the transfer of an historic revaluation reserve on transition to IFRS.
- Being the reclassification of investment in own shares.

## **APPENDIX 1 – Basis of preparation**

EU law requires that the next annual consolidated financial statements of the group be prepared in accordance with IFRS as adopted by the EU ('adopted IFRS').

Care UK's consolidated financial statements were prepared in accordance with UK GAAP until 1 October 2005. UK GAAP differs in some areas from adopted IFRS. In preparing this financial information, management has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with the recognition and measurement criteria of adopted IFRS.

The accounting policies used in the preparation of the adopted IFRS financial information (except in relation to financial instruments as noted below) are based on those expected to be included in the group's financial statements for the year ending 30 September 2006 and are set out in appendix 3. Based on these adopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied, which are set out in appendix 2, when the first annual adopted IFRS financial statements are prepared for the year ending 30 September 2006.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 30 September 2006 are still subject to change and to additional interpretations and therefore cannot yet be determined with certainty. Accordingly the accounting policies for that annual period will be finally determined only when the annual financial statements are prepared for the year ending 30 September 2006.

The preliminary adopted IFRS financial information set out in this summary do not constitute the company's statutory financial statements for the year ended 30 September 2005. Those financial statements, which were prepared under UK GAAP, have been reported on by the company's auditors; their report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. Those financial statements have been delivered to the registrar of companies.

### **Change in accounting policy**

The group has taken advantage of the exemption in IFRS 1 that enables the group to apply 'IAS 32 – Financial instruments: Disclosure and presentation' and 'IAS 39 – Financial instruments: Recognition and measurement' from 1 October 2005 and not to the 2004 and 2005 comparative figures where UK GAAP was used.

#### *Derivative financial instruments*

The group uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially and subsequently at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**Presentation of contingent acquisition consideration**

Additionally the adoption of 'IAS 32 – Financial instruments: Disclosure and presentation' will impact upon the presentation of contingent acquisition consideration to be contractually settled by the issue of new Care UK shares. The consideration will be presented as a liability under adopted IFRS as opposed to being presented as a component of equity under UK GAAP.

## APPENDIX 2 – adopted IFRS transitional arrangements

The restated financial information has been prepared in accordance with 'IFRS 1 – First Time Adoption of IFRS'. The disclosures required by IFRS 1 concerning the transition from UK GAAP to adopted IFRS are provided.

IFRS 1 sets out the procedures that the group must follow when it applies adopted IFRS for the first time as the basis for preparing its consolidated financial statements. Under IFRS 1 the group is required to establish its adopted IFRS accounting policies as at 30 September 2006 and, in general, apply these retrospectively to determine the adopted IFRS opening balance sheet at its date of transition, 1 October 2004.

IFRS 1 provides a number of optional exceptions to this general principle. The most significant of these are set out below, together with a description in each case of whether an exception has been adopted by the group.

- i) *Business combinations*  
The group has elected not to apply 'IFRS 3 – Business combinations' retrospectively to business combinations that took place before 1 October 2004. As a result, in the opening balance sheet, goodwill arising from past business combinations amounting to £19.6m remains as stated under UK GAAP as at 1 October 2004.
- ii) *Employee benefits*  
The group has recognised in full actuarial gains and losses in relation to its employee defined benefit pension scheme as at 1 October 2004. The group has recognised actuarial gains and losses in the period in which they occur in the statement of recognised income and expense in accordance with the amendment to 'IAS 19 – Employee benefits', issued on 16 December 2004.
- iii) *Share-based payments*  
The group has elected only to apply 'IFRS 2 – Share-based payment' to all relevant share-based payment transactions granted after 7 November 2002 but not fully vested or exercised by 30 September 2004.
- iv) *Financial instruments*  
The group has taken advantage of the exemption in IFRS 1 that enables the group to apply 'IAS 32 – Financial instruments: Disclosure and presentation' and 'IAS 39 – Financial instruments: Recognition and measurement' from 1 October 2005 and not to the 2004 and 2005 comparative figures where UK GAAP was used.
- v) *Fair value as deemed cost*  
Certain items of property that had been revalued to fair value prior to 1 October 2004, the date of transition to adopted IFRS, are recognised on the basis of their deemed cost, being their fair value established in the most recent valuation, less any subsequent depreciation or impairments.

## **APPENDIX 3 – Summary of adopted IFRS accounting policies**

Care UK consolidated financial statements were prepared in accordance with UK GAAP until 1 October 2005. UK GAAP differs in some areas from adopted IFRS. In preparing this financial information, the directors have amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with the recognition and measurement criteria of adopted IFRS.

### **Accounting policies**

The accounting policies used in the preparation of the adopted IFRS financial information in this summary, except in relation to financial instruments, are based on those expected to be included in Care UK's financial statements for the year ending 30 September 2006, are set out below.

#### **(a) Statement of compliance**

The restatement of financial information has been prepared in accordance with EU endorsed IFRS and IASB interpretations. This is the group's first restated financial information prepared under adopted IFRS and 'IFRS 1 – First-time adoption of International Financial Reporting Standards' has been applied. The restated financial information does not include all of the information required for full financial statements.

An explanation of how the transition to adopted IFRS has affected the reported financial position, financial performance and cash flows of the group is provided. This includes a reconciliation of equity and profit for the year ended 30 September 2005 reported under UK GAAP to those reported under adopted IFRS.

#### **(b) Basis of preparation**

The restated financial information has been prepared on the historical cost basis or fair value as appropriate except that certain land and buildings had previously been revalued and are stated at deemed cost.

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The preparation of restated financial information in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In accordance with 'IFRS 1 – First-time adoption of International Financial Reporting Standards', no adjustments have been made for any changes in estimates made at the time of approval of UK GAAP financial statements on which the preliminary IFRS financial information are based.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated restated financial information and in preparing an opening adopted IFRS balance sheet at 1 October 2004 for the purposes of the transition to adopted IFRS.

The accounting policies have been applied consistently by group entities.

#### **(c) Basis of consolidation**

##### **i) Subsidiaries**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so

as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial information of subsidiaries is included in the consolidated restated financial information from the date that control commences until the date that control ceased.

*ii) Joint ventures*

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated restated financial information include the group's share of the profits less losses of joint ventures in the consolidated income statement and its interest in their net assets in the consolidated balance sheet in accordance with the equity method of accounting.

*iii) Transactions eliminated upon consolidation*

Intragroup balances and any unrealised gains and loss or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated restated financial information. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(d) Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The functional currency of the group is UK sterling.

**(e) Financial instruments (under UK GAAP)**

The group's financial instruments comprise short term debtors and creditors, borrowings and cash, all of which are denominated in UK sterling. The main purpose of these financial instruments is to raise finance for the group's operations.

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.

*i) 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.

*ii) 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 sufficient available bank and overdraft facilities, 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.

*iii) 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.

**(f) Property, plant and equipment**

*i) Owned assets*

Items of property, plant and equipment are stated at cost and deemed cost less accumulated depreciation and impairment losses.

Certain items of property that had been revalued to fair value prior to 1 October 2004, the date of transition to adopted IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation less any subsequent depreciation and impairments. The last revaluation, to open market value, of the properties occurred in 1992.

Assets in the course of construction are carried in the restated financial information at cost, taken from the most recent surveyor's cost certificate received prior to the date of the restated financial information.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of land and buildings includes both the costs of financing assets in the course of construction and other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capitalisation of finance and other costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

*ii) Leased assets*

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. The asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors.

All other leases are accounted for as operating leases.

*iii) Subsequent costs*

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

*iv) Depreciation*

Depreciation is charged to the income statement to write off the cost, less estimated residual values, of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold land	No depreciation provided
Freehold buildings	25 to 50 years
Long leasehold buildings	50 years or, if shorter, the period of the lease or the associated contract
Short leasehold buildings	The shorter of the period of the lease or the associated contract
Plant and machinery (as an integral part of property assets)	25 years
Motor vehicles	4 years
Furniture, fittings, medical equipment and office equipment	3 to 10 years

The residual value, if not insignificant, is reassessed annually.

- v) *Pre-contract costs*  
Pre-contract costs include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is normally considered as the point at which the contract has been secured. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

**(g) Intangible assets**

i) *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures, being the excess of the fair value of the purchase consideration and associated costs and the fair values attributable to the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on acquisitions before the date of transition to adopted IFRS has been retained at the previous UK GAAP amounts. Goodwill is allocated to cash-generating units and is not subject to periodic amortisation but is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

ii) *Other intangible assets*

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

iii) *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Customer relationships are amortised over their estimated useful economic lives, which will not exceed ten years. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. Other intangible assets are amortised from the date they are available for use over their estimated useful lives.

iv) *Impairment*

The carrying amounts of goodwill and intangible assets that have an indefinite useful life are reviewed at each balance sheet date to determine whether there is any impairment. As required by adopted IFRS, goodwill was tested for impairment at 1 October 2004, the date of transition to adopted IFRS, even though no indication of impairment existed.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the income statement.

**(h) Other investments**

Other investments within the group restated financial information, if not significant, are stated at cost less provisions for diminution in value.

**(i) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.

**(j) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on the first-in first-out principle.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(l) Share capital**

*i) Employee Benefit Trust shares*

When share capital recognised as equity is acquired by the group's Employee Benefit Trust ('EBT'), the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Such shares are presented as a deduction from total equity.

*ii) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

**(m) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**(n) Employee benefits**

The assets of all pension plans are held separately from those of the group in independently administered managed funds.

*i) Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

*ii) Defined benefit plans*

The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate applied is the yield at the balance sheet date on AA credit rated bonds that have maturity obligations approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 October 2004, the date of transition to adopted IFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 October 2004, the group has decided to adopt early the amendment to 'IAS 19 – Employee Benefits – Actuarial gains and losses, group plans and disclosures', and recognise all actuarial gains and losses in the statement of recognised income and expense.

*iii) Share-based payment transactions*

The group operates a number of share option schemes. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The amount recognised as an expense is adjusted to reflect the number of share options that are expected to vest.

The group's Long Term Incentive Plan is managed by a separately administered EBT. Liabilities of the EBT are guaranteed by the company and the assets of the EBT mainly comprise shares in the company. The assets, liabilities, income and costs of the EBT have been included in the consolidated restated financial information.

**(o) Trade and other payables**

Trade and other payables are stated at cost.

**(p) Revenue**

*i) Services rendered*

Revenue represents sales and services to third party customers in the health and social care sector, stated net of any applicable value added tax. Revenue is recognised when the services are provided.

*ii) Government grants*

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the income statement over the estimated useful economic lives of the assets to which they relate. Grants that compensate the group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

**(q) Expenses**

*i) Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

*ii) Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*iii) Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

**(r) Taxation**

The charge for taxation is based on the profit or loss for the year and comprises current and deferred taxation. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(s) Segment reporting**

Care UK operates solely within the United Kingdom, hence no geographical segment disclosures are presented.

**(t) Non-current assets held for sale**

Immediately before their classification as being held for sale, the measurement of the value of any such assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable adopted IFRS. On their ensuing initial classification as being held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on the initial classification of non-current assets as being held for sale are included in profit or loss, including where there has been any revaluation of the asset. The same also applies to gains and losses on subsequent measurement.

## APPENDIX 4

### KPMG Audit Plc

*6 Lower Brook Street  
Ipswich  
IP4 1AP  
United Kingdom*

#### **Special Purpose Audit Report of KPMG Audit Plc to Care UK Plc ('the Company') on its preliminary opening International Financial Reporting Standards ("IFRS") balance sheet as at 1 October 2004 and its preliminary IFRS Financial Statements - Comparative Full Year**

In accordance with the terms of our engagement letter dated 27 March 2006, we have audited the accompanying preliminary opening consolidated IFRS balance sheet as at 1 October 2004, and the consolidated preliminary IFRS balance sheet of Care UK Plc ("the Company") as at 30 September 2005, and the related consolidated income statement, statement of recognised income and expense and cash flows for the year then ended and the related accounting policy and basis of preparation notes ("the preliminary IFRS financial statements") set out on pages 7 to 30.

#### **Respective responsibilities of directors and KPMG Audit Plc**

The directors of the Company have accepted responsibility for the preparation of the preliminary IFRS financial statements which have been prepared as part of the Company's conversion to IFRS. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to you our opinion as to whether the preliminary IFRS financial statements have been properly prepared, in all material respects, in accordance with the accounting policies note to the preliminary IFRS financial statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial statement.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

#### **Basis of audit opinion**

We conducted our audit having regard to Auditing Standards issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary IFRS financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the preliminary IFRS 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 preliminary IFRS financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the preliminary IFRS financial statements.

#### *Emphasis of matters*

Without qualifying our opinion, we draw your attention to the following matters:

- The basis of preparation to the preliminary IFRS financial statements explains why the accompanying preliminary IFRS financial statements may require adjustment before their inclusion as comparative information in the IFRS financial statements for the year ending 30 September 2006 when the Company prepares its first IFRS financial statements.
- As described in the accounting policies note to the preliminary IFRS financial statements, as part of its conversion to IFRSs, the Company has prepared the preliminary IFRS financial statements for the year ended 30 September 2005 to establish the financial position, results of operations and cash flows of the Company necessary to provide the comparative financial information expected to be included in the Company's first complete set of IFRS financial statements for the year ending 30 September 2006. The preliminary IFRS financial statements do not themselves include comparative financial information for the prior period.
- As explained in the accounting policies note, in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, no adjustments have been made for any changes in estimates made at the time of approval of the UK Generally Accepted Accounting Practices financial statements on which the preliminary IFRS financial statements are based.
- As permitted by IFRS 1, IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have not yet been applied and there has been no related restatement of the 1 October 2004 or 30 September 2005 balance sheet. Any adjustments that arise from the application of those standards will be shown as an equity movement on 1 October 2005. The opening balance sheet does not include the comparative financial information for the prior period.

#### **Opinion**

In our opinion, the accompanying opening balance sheet as at 1 October 2004 and preliminary IFRS financial statements for the year ended 30 September 2005 have been prepared, in all material respects, in accordance with the basis set out in the accounting policies and basis of preparation notes, which describes how IFRS have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year ending 30 September 2006.

#### **KPMG Audit Plc**

*Chartered accountants*

6 Lower Brook Street  
Ipswich  
Suffolk  
IP4 1AP  
21 April 2006

## APPENDIX 5

### KPMG Audit Plc

6 Lower Brook Street  
Ipswich  
IP4 1AP  
United Kingdom

#### **Special Purpose Review Report of KPMG Audit Plc to Care UK Plc ('the Company') on its Preliminary International Financial Reporting Standards ("IFRS") Financial Information - Comparative Interim**

In accordance with the terms of our engagement letter dated 27 March 2006, we have reviewed the accompanying consolidated preliminary IFRS balance sheet of the Company as at 31 March 2005, and the related consolidated income statement, statement of recognised income and expense and cash flow for the six month period then ended and the related accounting policy and basis of preparation notes ("the preliminary IFRS interim financial information") set out on pages 9 to 30.

#### **Respective responsibilities of directors and KPMG Audit Plc**

The directors of the Company have accepted responsibility for the preparation of the preliminary IFRS interim financial information which has been prepared as part of the Company's conversion to IFRS.

Our responsibilities under the terms of engagement are to report to you our review conclusion as to whether we are aware of any material modifications that should be made to the preliminary IFRS interim financial information which has been prepared, in all material respects, in accordance with the accounting policies note to the preliminary IFRS interim financial information.

We read the other information accompanying the preliminary IFRS interim financial information and consider whether it is consistent with the preliminary IFRS interim financial information. We consider the implications for our review conclusion if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS interim financial information.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

#### **Basis of review conclusion**

We conducted our review having regard to Bulletin 1999/4: *Review of interim financial information* issued by the UK Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the preliminary IFRS interim 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 preliminary IFRS interim financial information.

*Emphasis of matters*

Without qualifying our review conclusion, we draw your attention to the following matters:

- The basis of preparation to the preliminary IFRS interim financial information explains why the accompanying preliminary IFRS interim financial information may require adjustment before its inclusion as comparative information in the Company's interim report for the six month period ended 31 March 2006 when the Company prepares its first interim report applying IFRS.
- As described in the accounting policies note to the preliminary IFRS interim financial information, as part of its conversion to IFRS, the Company has prepared the preliminary IFRS interim financial information for the six month period ended 31 March 2005 to establish the financial position, results of operations and cash flows of the Company necessary to provide the comparative financial information expected to be included in the Company's first interim report for the six month period ended 31 March 2006. The preliminary IFRS interim financial information does not itself include comparative financial information for the prior period.
- As explained in the accounting policies note, in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, no adjustments have been made for any changes in estimates made at the time of approval of the previous UK Generally Accepted Accounting Practices interim report for the six month period ended 31 March 2005 on which the preliminary IFRS interim financial information is based.
- As permitted by IFRS 1, the following standards IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have not yet been applied, and there has been no related restatement of the 31 March 2005 balance sheet. Any adjustments that arise from the application of those standards will be shown as an equity movement on 1 October 2005.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the preliminary IFRS interim financial information as presented for the six month period ended 31 March 2005 which has been prepared, in all material respects, in accordance with the basis set out in the accounting policies and basis of preparation notes, which describes how IFRS have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year ending 30 September 2006.

**KPMG Audit Plc**

*Chartered accountants*

6 Lower Brook Street  
Ipswich  
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21 April 2006