CARE UK

Personal & professional care solutions




Care UK Plc interim report 2006

CARE UK

Welcome

to Care UK

Care UK 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, PCTs and NHS Trusts, the company delivers highly specialised, value for money services and care pathways, always focused on maximising quality of life.

highlights for the period

for the six months ended 31 March

Amounts in £m unless stated	**31 March 2006**	31 March 2005	**Change %**
Revenue: group and share of joint venture	**93.3**	79.1	**+18**
Operating profit*	**8.9**	7.5	**+18**
Profit before taxation and amortisation	**5.7**	5.2	**+10**
Basic EPS	**7.23p**	6.63p	**+9**
Basic EPS before amortisation	**7.54p**	6.68p	**+13**
Interim dividend per share	**1.12p**	1.03p	**+9**
Net assets (total)	**57.6**	50.9	**+13**

* before amortisation of other intangible assets and including joint venture operating profit

- **Excellent progress made financially, with good growth in all divisions**
  - Strong operating cash inflow of £12.6m (2005: £6.8m)
  - Total forward contracted income of £879m, up 10% since September 2005
- **Residential Care**
  - Strong momentum in winning new contracts – Poole Borough Council and Redbridge Primary Care Trust signed in the period
  - New homes commissioned in London Boroughs of Islington, Richmond-upon-Thames and Hammersmith & Fulham
- **Community Care**
  - Good organic growth – new Homecare contracts signed representing over 4,000 hours per week
  - Ravencare, a Lancashire-based homecare provider, acquired in January 2006 providing over 2,000 hours of homecare per week; Select Care, based in Birmingham, acquired in May 2006 providing over 1,000 hours per week
- **Specialist Care**
  - Good growth in turnover; range of organic growth and acquisition opportunities
  - New contract wins in learning disabilities totalling £1.3m per annum; new mental health homes commissioned
- **Clinical Care**
  - Construction of treatment centres for Maidstone and North East London on schedule; Trent and Plymouth progressing well with PHG's trading now consistently at targeted profitability levels
  - Framework agreement signed with a group of GPs, trading as BK Health, to support bids for a range of primary care services across the UK
  - Contracts for commuter walk-in centres in Newcastle-upon-Tyne and Victoria, London signed, first site operational in May 2006; further award of primary care projects expected

John Nash, Chairman, commented:

"Care UK has made excellent progress financially and has continued to see good growth in all areas of the business. With significant contracts in the construction phase, a strong pipeline of further opportunities and excellent organic growth momentum, the outlook for Care UK is very encouraging.

"The NHS reform plans offer real opportunity for transformational growth. Inevitably, such a reform programme is subject to some turbulence and considerable public comment and does require increased investment in resources and bidding costs by the group. However, the scale of opportunity is significant and with the continuing momentum towards a much more extensive contribution from independent sector providers, Care UK is very well placed to benefit."

operations and finance review

Evergreen Lodge – 12-bed mental health care facility in partnership with Croydon PCT opened in February 2006.

Care UK has made excellent progress financially and has continued to see good growth in all areas of the business.

In particular, the long established Residential and Community Care divisions have maintained strong momentum in winning new contracts and in organically growing existing services, with improved margins as well as commendable growth in turnover.

The Specialist Care division has also achieved good growth in turnover, but a more modest increase in profit reflecting some specific short-term issues, which are discussed in more detail later.

Within the emerging Clinical Care division, results in the group's joint venture PHG are now consistently in line with targeted returns and the prospects for further new contract growth for both PHG and primary care services are good.

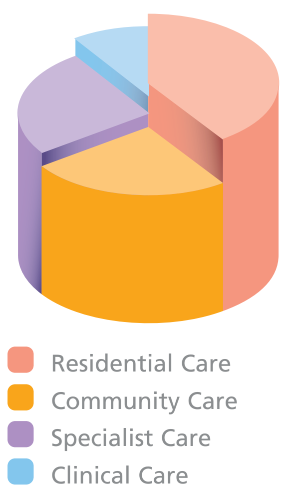
The strategy and portfolio approach adopted by Care UK, encompassing a broad range of health and social care services, is proving to be well founded in offering balance for shareholders and service development opportunities for customers.

Financial results

The group's results for the period, together with the comparative figures for both the first half and full year 2005, are presented under International Financial Reporting Standards as adopted by the European Union ("adopted IFRS"). The restated comparative results for 2005, together with the group's transition balance sheet, were published on 24 April 2006 and all amounts quoted below refer to amounts prepared in accordance with adopted IFRS. The following table shows headline figures for the periods ended 31 March 2005 and 31 March 2006 under both IFRS and UK GAAP, for information purposes.

	IFRS		**UK GAAP**	
Amounts in £m unless stated	**31 March 2006**	31 March 2005	**31 March 2006**	31 March 2005
Revenue: group and share of joint venture	**93.3**	79.1	**93.3**	79.1
Operating profit before amortisation, including joint venture operating profit	**8.9**	7.5	**9.0**	7.5
Profit before group taxation and amortisation	**5.7**	5.2	**5.9**	5.1
Profit attributable to equity shareholders	**3.6**	3.3	**3.3**	2.7
Basic EPS	**7.23p**	6.63p	**6.47p**	5.42p
Basic EPS before amortisation	**7.54p**	6.68p	**7.96p**	6.63p
Net assets (total)	**57.6**	50.9	**55.7**	50.0

Business mix 2006



St Vincent's House – 92-bed elderly care home in partnership with the London Borough of Hammersmith and Fulham opened in April 2006.

The group results show revenue, including the group's share of joint venture revenue, of £93.3m (2005: £79.1m), up by 18%, and operating profit before amortisation, including joint venture operating profit, of £8.9m (2005: £7.5m), also an increase of 18%. Profit before tax and amortisation was £5.7m (2005: £5.2m) and the associated earnings per share were 7.54p (2005: 6.68p), increases of 10% and 13% respectively. Overall profit before tax was £5.6m (2005: £5.2m) with associated basic earnings per share of 7.23p (2005: 6.63p).

Dividend

The Board is recommending an interim dividend of 1.12p per share (2005: 1.03p), an increase of 8.7%. The interim dividend will be paid on 7 July 2006 to shareholders on the register as at 9 June 2006.

Cash flow, net debt and funding

Net debt rose during the period by £5.6m to £105.6m. Operating cash inflow was £12.6m (2005: £6.8m) including the receipt of non-recurring grant payments in respect of the group's Hammersmith & Fulham contract amounting to £0.8m. Net investment consumed £11.6m and stakeholder cash flows (interest, tax, dividends and equity issues) represented a net outflow of £6.6m.

The total net investment of £11.6m is made up of net capital expenditure of £8.9m, acquisition payments of £1.9m and loans to our joint venture company of £0.8m. The net capital expenditure represented expenditure on new capacity of £7.3m, systems infrastructure investments of £0.7m and maintenance capital expenditure of £1.1m less disposal proceeds of £0.2m.

As announced at the group's AGM on 2 February, the group acquired Ravencare Limited, a homecare provider based in Fleetwood in Lancashire, in January 2006 and also purchased the remaining 20% of Corvedale Care not previously owned by the group. Ravencare was acquired for £1.1m and the consideration for this acquisition was funded from the group's existing borrowing facilities; the minority stake in Corvedale was acquired for £0.7m and the consideration was satisfied by the issue of new Care UK shares. In addition, payments totalling £0.8m were made in relation to acquisitions from previous years. The maximum contingent consideration payable in future in relation to completed acquisitions now amounts to £0.6m, subject to the performance of the businesses concerned.

In December 2005 the group finalised an increase of £10.0m to the revolving credit element of the group's existing borrowing facilities, in particular to provide capacity for the performance bond element of centrally procured Department of Health contracts. As at 31 March 2006 a total of £2.0m of performance bonds had been issued under this facility in respect of the two commuter walk-in centre contracts signed during the period. A further and more substantive increase in the group's borrowing facilities is expected to be finalised shortly to support the next phase of planned growth.

Review of operations

Residential Care Services

Six months ended 31 March	2006 £000	2005 £000
Turnover	**37,786**	34,226
Operating profit	**6,161**	5,501
Operating margin	**16.3%**	16.1%

Residential Care achieved an improvement of 10% in turnover and 12% in operating profit, reflecting the successful commissioning of new contracted homes in the London Boroughs of Islington, Richmond-upon-Thames and Hammersmith & Fulham and the maintenance of a high level of beds paid for (financial occupancy at 98% in the first half, similar to recent years). Farm Lane (Hammersmith & Fulham, 66 beds) and Highbury New Park (Islington, 53 beds) were both opened as planned last summer. Greville House (Richmond, 59 beds) opened as planned in October 2005. In addition, the first of the two extensions identified in the 2005 preliminary results, at Broadwater Lodge in Surrey (17 beds) opened in October 2005. Since the period end St Vincent's, the second Hammersmith & Fulham home, with 92 beds, opened on schedule in April 2006, and the second extension to an existing home, at Appleby House in Surrey (25 beds) also opened as planned in April 2006. A number of other potential existing sites are being reviewed in respect of adding further beds over the next few years.

The construction of Lennox House, the new 87-bed care home being built in Islington (40 beds contracted over 25 years), is on schedule and should open as planned in Summer 2007.

Following the completion of Greville House, the final home to be built under the Richmond contract, marketing has commenced for the disposal of the first of the two surplus sites in the Borough with a disposal anticipated either in the second half of 2006 or the first half of 2007. A planning application in respect of the second site is due to be submitted shortly and, assuming that the appropriate consent is granted, marketing of this site will commence later in the current financial year. We expect to obtain a significant exceptional cash receipt, and associated credit to the income statement, from these disposals, when completed.

We are delighted to announce that Residential Care has now signed the contract with Poole Borough Council for the development of a new care home for older people with dementia, announced last year. The contract is for a minimum 15-year term and comprises two phases: firstly, the transfer of an existing 49-bed care home, which has been under Care UK management since 3 April 2006 and secondly, a site is being sought for the construction of a minimum 70-bed care facility, which will replace the existing home when complete. In addition, Care UK is providing homecare services as part of the integrated residential, day-care and community solution for dementia clients in Poole.

We are also pleased to announce the award of a further new management contract for Residential Care. Redbridge Primary Care Trust has awarded Care UK the contract to operate an existing 70-bed continuing care home in the grounds of the King George VI hospital in Redbridge, adjacent to the new ISTC being constructed by PHG, the group's joint venture interest. The contract will be for an initial term of five years, with an option for a further two year period, and will require capital investment of c£0.2m.

Community Care Services

Six months ended 31 March	2006 £000	2005 £000
Turnover	**23,128**	18,796
Operating profit *	**1,484**	1,164
Operating margin	**6.4%**	6.2%

** Before amortisation of other intangible assets of £110,000 (2005: £17,000)*

Within the Homecare business both turnover, up 28%, and operating profit, up 36%, showed excellent growth over the equivalent period in 2005, reflecting both a high rate of success in winning new business as well as the impact of acquisitions made in both the current period and prior year.

Acquisition of Ravencare Limited, a homecare business in Fleetwood providing 2,500 hours per week.

Contracts signed to build and operate two NHS walk-in centres at Newcastle and London Victoria stations.

The strong performance in Homecare reflects the implementation of contracts won in the previous year together with further success in 2006. In the current financial year additional contracts have been won in Bournemouth, Lincolnshire, Leeds, Leicestershire and Peterborough. In total these new contracts will represent over 4,000 hours per week once fully operational (an increase of around 5% on the current weekly volume), with full service build-up to be achieved over the next few months. The contract gained in Leeds, for a total of around 1,500 hours per week, is a direct result of the acquisition of C J Homecare, acquired in August 2005 as an entry point into the important West Yorkshire conurbation.

Ravencare, based in Fleetwood in Lancashire, was acquired in January 2006. It currently provides over 2,000 hours per week of homecare, mainly under Local Authority block contracts, and represents another step in expanding the group's presence in the North West of England. Subsequent to the period end, in May 2006, the group acquired Select Care, based in Birmingham. Select Care provides over 1,000 hours per week of homecare, principally under a Local Authority block contract, and represents a good first step into the West Midlands.

The Homecare business showed a substantial improvement in turnover between the first and second halves of the 2005 financial year and consequently the rate of year-on-year increase reported for the first half of 2006 is not likely to be maintained into the second half of the current year. At the end of the period being reported the weekly total of hours of care provided amounted to around 74,000 compared with 69,000 at the start of the financial year, an increase of 6.5% over the six months being reported.

The pipeline of tenders in Homecare remains encouraging and our rate of success indicates that increasingly the qualitative strengths and outcome-focused services that Care UK can demonstrate enable the division to win new business at acceptable margins. Local Authority funding pressures are a consideration, but any localised impact is being more than mitigated by progress across the business as a whole. We remain positive for the future prospects for growth in Homecare, utilising the brand strength and scale that has been consistently developed over the past few years.

Our specialist recruitment business made a small positive contribution during the period. However, we continue to explore the longer term options for this business. Currently the group balance sheet includes an amount of £2.3m of historic goodwill in respect of this business, which will be assessed further when the future options for the business have been fully considered.

Specialist Care Services

Six months ended 31 March	2006 £000	2005 £000
Turnover	**23,663**	20,826
Operating profit	**2,419**	2,358
Operating margin	**10.2%**	11.3%

The Specialist Care division is focused on three business areas – mental health, learning disabilities and children's services. Our strategy remains to gradually expand each of these services across the UK through a combination of organic and acquisition growth.

The 14% increase in turnover during the first half was made up of 8% organic growth and 6% from acquisitions made in the prior year.

The result for the Specialist Care division was adversely impacted by continued reduced occupancy levels at Althea Park, our specialist eating disorders service. As reported with the 2005 results, an unusually high number of discharges occurred late in the previous year in parallel with the opening of a new 10-bed property. Whilst the pipeline of referrals to Althea Park remains encouraging, the impact on profitability of reduced occupancy on this high value-added service has been significant. Management of this service is now the responsibility of the mental health services team.

The specialist 12-bed mental health care facility providing support and rehabilitation services in partnership with Croydon Primary Care NHS Trust opened as planned in February 2006 and both occupancy and profitability are in line with expectations.

In learning disabilities, we have seen continuing growth from previous contract wins as well as new services being gained during the period amounting to over £1.3m per annum when fully operational. This includes an extension to the Chorley and West Ribble contract that commenced in July 2005 and new contracts in Staffordshire and Stoke. In total the number of service users cared for now totals 456, including new services yet to commence, compared with 429 at 30 September 2005.

Trading within the residential children's services business, Corvedale Care, has been in line with expectations with good occupancy levels. The performance of FSG, our specialist foster care provider, has been disappointing in the first half as a result of the policy adopted by Kent County Council to discourage the placement into Kent of children from outside the county. We are selectively reviewing opportunities for additional growth within both the residential and foster care elements of the children's services business, including further acquisitions and additional branch offices for foster care.

Consistent with our expansion strategy, we are currently evaluating a number of growth opportunities across all the specialist care service areas.

Clinical Care Services

Six months ended 31 March	2006 £000	2005 £000
Turnover	**8,713**	5,233
Operating loss *	**(178)**	(665)
Operating margin	**(2.0%)**	(12.7%)

** Before amortisation of other intangible assets of £55,000 (2005: £14,000) and joint venture net financing costs and taxation of £680,000 (2005: £66,000 credit)*

The operating loss reported in Clinical Care reflects the continuing start-up nature of the division and the necessary investment in business development overheads to participate in the range of government procurement activities currently available.

During the period PHG has continued to deliver a good clinical service and to record consistently high levels of patient satisfaction at both of its operational treatment centres at Barlborough Links and Plymouth. As previously indicated, the primary focus of PHG on delivering the desired high standards of clinical excellence meant that results were slower than originally anticipated to reach targeted profitability. However, trading in the past quarter has been encouraging with the targeted level of profitability of PHG now being consistently attained.

The construction programmes for PHG's further two treatment centres, in Maidstone and Goodmayes in North East London, are both on plan with services due to commence in late 2006 and early 2007 respectively.

PHG has now submitted bids for a number of projects within the Department of Health's wave 2 ISTC procurement programme and has been invited to continue discussions on several projects. The Department of Health has recently announced that a number of the planned wave 2 projects have been withdrawn, several of which PHG had expressed interest in, although none of these had reached the bidding stage. The Department of Health has also indicated that it intends to replace this activity with other projects to broadly maintain the overall size of this procurement initiative. Whilst we remain cautiously optimistic about PHG's chances of winning new business from this programme we are mindful of the wider financial pressures on the NHS and the possible implications this could have on current procurement decisions and timescales.

In primary care, we are pleased with the continuing success of our contracts to provide out-of-hours services for Southend and Castle

Point & Rochford PCTs and for the provision of GP services to Chelmsford prison.

We are pleased to confirm that both of the contracts awarded to Care UK under the Department of Health's commuter walk-in centre programme have been signed. The centre in Newcastle-upon-Tyne commenced its initial services in May 2006 and the centre in Victoria, London, is expected to be operational in autumn 2006.

We are also pleased with progress in bidding for the central procurement of primary care contracts in six areas considered to have a current shortfall in primary care provision. This procurement initiative is considered to be a key initial step toward a more significant flow of opportunities as a result of the Government's white paper published in January 2006. We expect to report news of preferred bidder appointments soon.

The consortium formed by Care UK and Alliance Medical was invited to submit detailed bids for two of the regional contracts being procured by the Department of Health under the second wave of procurement for diagnostic services. Further detailed review and iteration in respect of these submissions is being carried out prior to the eventual appointment of preferred providers. The consortium also expressed interest in a national PET/CT contract that has yet to proceed to the bidding stage.

We are pleased to announce that the group has recently signed a framework agreement with a progressive group of GPs, trading as BK Health, to support our bids for a range of primary care services across the country. BK Health, based in Oxford, operates a group of primary care practices in North East England, Wales and Buckinghamshire and we look forward to reporting progress in this area in due course.

The breadth and depth of the development opportunities outlined above mean that the group is committing considerably more resource to this area of the group's activity than had been anticipated for the current year. Whilst it is very encouraging that we are being shortlisted for so many of these opportunities, there is an inevitable increase in the costs involved in bidding for these contracts. As a result of this increased level of bidding cost we now expect that the Clinical Care division will only become profitable in 2007.

This continued activity in several areas of clinical care outsourcing is extremely encouraging and we look forward to reporting further contract success from the wide range of opportunities that the group is currently engaged in. The group's strategy within the Clinical Care division remains strongly aligned with the Government's plans for the increasing involvement of the independent sector in the delivery of services to NHS patients.

Outlook

With significant contracts in the construction phase, a strong pipeline of further opportunities and excellent organic growth momentum, the outlook for Care UK is very encouraging.

Established services and relationships with Local Authorities, Mental Health and Primary Care Trusts are stable and customers are responsive to Care UK's service excellence and solution development.

Beyond this, the NHS reform plans offer real opportunity for transformational growth. Inevitably, such a reform programme is subject to some turbulence and considerable public comment and does require increased investment in resources and bidding costs by the group. However, the scale of opportunity is significant and with the continuing momentum towards a much more extensive contribution from independent sector providers, Care UK is very well placed to benefit.

Mike Parish
Chief Executive

Paul Humphreys
Finance Director

22 May 2006

consolidated income statement (unaudited)

for the six months ended 31 March 2006

	6 months to 31 March 2006 £000	6 months to 31 March 2005 £000	Year to 30 Sept 2005 £000
Revenue: group and share of joint venture	**93,290**	79,081	169,225
Less: share of joint venture	**(7,922)**	(4,875)	(12,547)
Group revenue	**85,368**	74,206	156,678
Cost of sales	**(69,379)**	(60,532)	(125,842)
Gross profit	**15,989**	13,674	30,836
Administrative expenses	**(7,795)**	(5,747)	(12,476)
Share of loss of joint venture	**(167)**	(381)	(210)
Operating profit before financing expenses	**8,027**	7,546	18,150
Operating profit before amortisation and joint venture net financing costs and taxation	**8,872**	7,511	18,734
Amortisation of other intangible assets	**(165)**	(31)	(136)
Joint venture net financing costs and taxation	**(680)**	66	(448)
Operating profit before financing expenses	**8,027**	7,546	18,150
Financial income	**539**	65	372
Financial expenses	**(2,987)**	(2,417)	(5,008)
Net financing costs	**(2,448)**	(2,352)	(4,636)
Profit before tax	**5,579**	5,194	13,514
Taxation	**(1,904)**	(1,825)	(4,630)
Profit for the period	**3,675**	3,369	8,884
Attributable to:			
Equity holders of the parent	**3,649**	3,329	8,783
Minority interest	**26**	40	101
Profit for the period	**3,675**	3,369	8,884
Earnings per share			
Basic	**7.23p**	6.63p	17.48p
Diluted	**7.11p**	6.56p	17.18p

consolidated statement of recognised income and expense (unaudited)

for the six months ended 31 March 2006

	6 months to 31 March 2006 £000	6 months to 31 March 2005 £000	Year to 30 Sept 2005 £000
Actuarial gains and losses on defined benefit pension plan	**–**	(98)	(196)
Deferred taxation on actuarial gains and losses	**–**	29	58
Net expense recorded directly in equity	**–**	(69)	(138)
Profit for the period	**3,675**	3,369	8,884
Total recognised income and expense for the period	**3,675**	3,300	8,746
Attributable to:			
Equity holders of the parent	**3,649**	3,260	8,645
Minority interest	**26**	40	101
Total recognised income and expense for the period	**3,675**	3,300	8,746

consolidated balance sheet (unaudited)

as at 31 March 2006

	31 March 2006 £000	31 March 2005 £000	30 Sept 2005 £000
Assets			
Property, plant and equipment	**133,323**	114,439	126,601
Intangible assets	**26,949**	25,390	25,236
Investment in joint venture	**6,993**	1,983	6,408
Other investments	**40**	40	40
Total non-current assets	**167,305**	141,852	158,285
Inventories	**236**	236	236
Trade and other receivables	**23,860**	21,727	23,935
Cash and cash equivalents	**1,659**	1,752	802
Properties classified as held for sale	**203**	71	178
Total current assets	**25,958**	23,786	25,151
Total assets	**193,263**	165,638	183,436
Liabilities			
Overdrafts	**(197)**	(1,014)	(972)
Bank loans	**(1,920)**	(2,016)	(1,935)
Trade and other payables	**(20,214)**	(18,914)	(19,800)
Current tax liabilities	**(1,665)**	(1,828)	(1,968)
Total current liabilities	**(23,996)**	(23,772)	(24,675)
Non-current liabilities			
Bank loans	**(104,597)**	(85,186)	(97,335)
Other non-current liabilities	**(1,487)**	(1,190)	(851)
Deferred tax liabilities	**(5,602)**	(4,577)	(5,275)
Total non-current liabilities	**(111,686)**	(90,953)	(103,461)
Total liabilities	**(135,682)**	(114,725)	(128,136)
Net assets	**57,581**	50,913	55,300
Equity			
Issued share capital	**5,126**	5,093	5,100
Share premium	**6,992**	5,841	5,965
Shares to be issued	**–**	1,233	338
Retained earnings	**45,463**	38,558	43,648
Total equity attributable to equity holders of the parent	**57,581**	50,725	55,051
Minority interest	**–**	188	249
Total equity	**57,581**	50,913	55,300

consolidated cash flow statement (unaudited)

for the six months ended 31 March 2006

	6 months to 31 March 2006 £000	6 months to 31 March 2005 £000	Year to 30 Sept 2005 £000
Cash inflow from operating activities			
Profit for the period	**3,675**	3,369	8,884
Depreciation	**2,518**	2,038	4,158
Amortisation	**165**	31	136
Profit on disposal of fixed assets	**(43)**	(221)	(246)
Increase in debtors	**(143)**	(2,061)	(4,200)
(Increase)/decrease in assets held for resale	**(25)**	51	52
Increase/(decrease) in creditors	**1,669**	(1,111)	1,233
Equity-settled share-based payments	**301**	160	351
Share of loss of joint venture	**167**	381	210
Financial income	**(539)**	(65)	(372)
Financial expense	**2,987**	2,417	5,008
Tax expense	**1,904**	1,825	4,630
Cash generated from operations	**12,636**	6,814	19,844
Income taxes paid	**(1,892)**	(1,358)	(3,421)
Net cash from operating activities	**10,744**	5,456	16,423
Cash flows from investing activities			
Payments to acquire property, plant and equipment	**(9,093)**	(11,644)	(25,592)
Proceeds from sales of property, plant and equipment	**152**	559	590
Interest received	**573**	10	336
Investment in joint venture	**(98)**	(370)	(388)
Loans to joint venture	**(752)**	(383)	(4,700)
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	**(1,856)**	(4,965)	(6,706)
Net cash from investing activities	**(11,074)**	(16,793)	(36,460)
Cash flows from financing activities			
Proceeds from issue of share capital	**50**	77	210
Repurchase of own shares	**(930)**	(425)	(429)
Proceeds from new secured loans	**8,247**	17,284	30,319
Repayments of amounts borrowed	**(1,009)**	(1,277)	(2,256)
Interest paid	**(3,211)**	(2,561)	(6,418)
Payment of capital element of finance lease payments	**(25)**	(28)	(47)
Dividends paid	**(1,160)**	(1,055)	(1,572)
Net cash from financing	**1,962**	12,015	19,807
Net increase/(decrease) in net cash and cash equivalents	**1,632**	678	(230)
Cash and cash equivalents brought forward	**(170)**	60	60
Cash and cash equivalents carried forward	**1,462**	738	(170)

notes

1. Accounting policies

European Union ('EU') law requires that the annual consolidated financial statements of the group for the year ending 30 September 2006 be prepared in accordance with International Financial Reporting Standards adopted for use within the EU ('IFRS').

Care UK's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') until 1 October 2005. UK GAAP differs in some areas from IFRS. In preparing this interim financial report, management has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with the recognition and measurement criteria of IFRS. In accordance with 'IFRS 1 – First-time adoption of International Financial Reporting Standards', no adjustments have been made to the comparative information for any changes in estimates made at the time of approval of UK GAAP financial statements on which the IFRS financial information are based.

The accounting policies used in the preparation of this interim report 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 on the company's website in the restated financial information published on 24 April 2006 (refer to note 2). Based on these adopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied when the first annual 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.

This interim report, for the six months ended 31 March 2006, does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. As permitted, the group has not adopted 'IAS 34 – Interim Financial Reporting'.

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 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.

1. Accounting policies *(continued)*

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.

The total effect of the above adjustments is to decrease reported profit for the six months ended 31 March 2006 by £71,000 and to decrease net assets and shareholders equity by the same amount.

2. Transition to International Financial Reporting Standards

On 24 April 2006 Care UK issued restated IFRS financial information for the six months ended 31 March 2005, the year ended 30 September 2005 and the group's opening IFRS balance sheet as at 1 October 2004. The restated IFRS financial information 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. The summary includes the revised accounting policies expected to be adopted under adopted IFRS.

The information set out in that summary can be downloaded from the company's website at www.careuk.com/IFRS.asp.

3. Segmental analysis

	Turnover			Operating profit		
Analysis by class of business:	**6 mths to 31 March 2006 £000**	6 mths to 31 March 2005 £000	Year to 30 Sept 2005 £000	**6 mths to 31 March 2006 £000**	6 mths to 31 March 2005 £000	Year to 30 Sept 2005 £000
Residential Care	**37,786**	34,226	70,350	**6,161**	5,501	12,131
Community Care	**23,128**	18,796	40,695	**1,484**	1,164	3,012
Specialist Care	**23,663**	20,826	44,561	**2,419**	2,358	5,506
Clinical Care	**8,713**	5,233	13,619	**(178)**	(665)	(99)
Central costs	**–**	–	–	**(1,014)**	(847)	(1,816)
Total before amortisation and joint venture net financing costs and taxation	**93,290**	79,081	169,225	**8,872**	7,511	18,734
Amortisation of other intangible assets[1]				**(165)**	(31)	(136)
Joint venture share of net financing costs and taxation				**(680)**	66	(448)
Total				**8,027**	7,546	18,150

[1] Amortisation of other intangible assets comprises £110,000 (March 2005: £17,000; September 2005: £84,000) in respect of Community Care and £55,000 (March 2005: £14,000; September 2005: £52,000) in respect of Clinical Care.

4. Taxation

Taxation for the period has been provided for at the estimated effective tax rate for the year ending 30 September 2006.

5. Earnings per share

	6 months to 31 March 2006	6 months to 31 March 2005	Year to 30 Sept 2005
Basic EPS	**7.23p**	6.63p	17.48p
Diluted EPS	**7.11p**	6.56p	17.18p
Additional disclosures:			
Basic EPS before amortisation	**7.54p**	6.68p	17.75p
Diluted EPS before amortisation	**7.41p**	6.60p	17.45p

Profit attributable to ordinary shareholders
The profit attributable to ordinary shareholders before and after amortisation for both basic and diluted earnings per share are:

	6 months to 31 March 2006 £000	6 months to 31 March 2005 £000	Year to 30 Sept 2005 £000
Profit attributable to shareholders	**3,649**	3,329	8,783
Adjustments:			
Amortisation of other intangible assets	**165**	31	136
Tax relief on amortisation of other intangible assets	**(10)**	(7)	–
Profit attributable to shareholders before amortisation	**3,804**	3,353	8,919

Weighted average number of ordinary shares
The calculation of earnings per share is based on a weighted average of ordinary shares in issue during the period. The diluted earnings per share is based on a weighted average of ordinary shares calculated in accordance with 'IAS 33 – Earnings per share', which assumes that all dilutive options will be exercised. The additional basic and diluted EPS use the same weighted average number of ordinary shares as the basic and diluted EPS.

	6 months to 31 March 2006	6 months to 31 March 2005	Year to 30 Sept 2005
In thousands of shares			
Weighed average number of shares in issue	**50,447**	50,219	50,232
Adjustment: Weighted average number of dilutive shares and share options	**910**	533	882
Weighted average number of shares for calculating diluted earnings per share	**51,357**	50,752	51,114

6. Statement of changes in shareholders' equity

	6 months to 31 March 2006 £000	6 months to 31 March 2005 £000	Year to 30 Sept 2005 £000
Opening shareholders' equity	**55,051**	48,451	48,451
Expense recognised directly in equity	**–**	(69)	(138)
Profit for the period	**3,649**	3,329	8,783
Dividends	**(1,160)**	(1,055)	(1,572)
Shares to be issued	**(338)**	–	(1,014)
Issue of share capital	**1,053**	186	436
Purchase of own shares	**(930)**	(425)	(429)
Adjustment in respect of equity-settled share-based payments	**256**	308	534
Closing shareholders' equity	**57,581**	50,725	55,051

7. Dividend

The proposed interim dividend of 1.12p per ordinary share will be paid on 7 July 2006 to shareholders on the register on 9 June 2006. The proposed interim dividend was approved by the Board on 22 May 2006 but was not included as a liability as at 31 March 2006, in accordance with 'IAS 10 – Events after the Balance Sheet Date'.

8. Comparative information

Comparative annual figures for the year ended 30 September 2005 set out within this report have been extracted from the 'Restatement of Financial Information under IFRS', as published by the group on 24 April 2006. Statutory consolidated financial statements for the group for the year ended 30 September 2005, prepared in accordance with UK GAAP, on which the auditors gave an unqualified opinion and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, have been delivered to the registrar of companies.

9. Additional information

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.

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 8 to 15 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 of the Financial Services Authority 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 2006.

KPMG Audit Plc
Chartered Accountants
Ipswich
22 May 2006

Directors

John Nash	Non-Executive Chairman
Mike Parish	Chief Executive
Paul Humphreys	Finance Director
Lesley James CBE	Non-Executive
Fritz Ternofsky	Senior Independent Non-Executive
Ruth Carnall CBE	Non-Executive
Miles Roberts	Non-Executive

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