





Care UK is a leading provider of person-centred care to people of all ages and with a wide variety of needs across the full spectrum of care in the UK.

Working in close partnership with local authorities, PCTs and NHS Trusts, Care UK provides highly specialised, value for money services with the needs of service users and customers as their focus.

Our broad range of services means we are able to offer commissioners innovative, outcomes-based care pathways by linking together, where appropriate, specialist services from across the group.

Our proven track record of providing first class care services across the UK means that customers can be assured that they are working with an organisation that understands the intricacies of the health and social care sectors, and that produces results that benefit both service users and commissioners alike.

Contents

Financial highlights	1	Biographical details of directors	16
Chairman's statement	2	Financial information and financial statements	17
Chief Executive's report	4	Directors, executive committee and advisors	IBC
Finance review	12		

Divisional highlights



Residential Care Services

- + Revenue growth of 16%, improved operating margin
- + Three new management contracts awarded in Redbridge, Windsor & Maidenhead and West Berkshire with a total of 206 beds
- + Two new-build homes and two home extensions successfully commissioned with a total of 242 beds
- + Investments in an innovative active living programme and a sector leading computerised care management system



Community Care Services

- + Strong revenue growth of 22%, including 18% organic growth, with operating profit improvement of 36%
- + Acquisition of new branches in Fleetwood, Birmingham and Surrey collectively providing over 6,000 hours of care per week
- + Contract wins amounting to over 7,000 hours of care per week, when fully operational
- + Leaders in the development of quality and outcome focused services



Specialist Care Services

- + Revenue growth of 12%, including 8% organic growth
- + Learning Disabilities contract wins in Glasgow, Staffordshire and Stoke valued at over £3m pa
- + Acquisition of two independent hospitals for specialist psychiatric rehabilitation and two urban-based children's residential care businesses
- + Newly developed mental health facilities opened in Croydon and Stroud
- + Excellent reputation for therapeutic and educational outcomes



Clinical Care Services

- + Breakthrough contract wins in primary care and diagnostics
- + Commissioned new services in Newcastle, Barking & Dagenham and Luton
- + Strong service and financial performance from PHG
- + Post year-end preferred bidder appointments for both Care UK and PHG in wave 2 elective procurement programme
- + Outstanding patient satisfaction and clinical outcomes

Care UK is organised around four business units:

- + Residential Care Services, operating care homes and day services for older people.
- + Community Care Services, supporting people in their own homes, including older people and others with specialist needs.
- + Specialist Care Services, including learning disabilities, mental health and children's services.
- + Clinical Care Services, a range of acute and primary care services which includes Partnership Health Group.

Business overview

revenue **£81m**

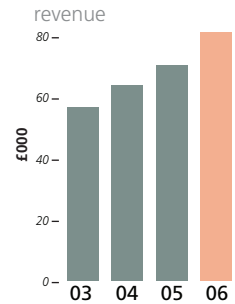
2,945 beds in 54 homes, average weekly fee rate of £579, 75% of beds contracted for an average remaining term of 9½ years, financial occupancy 98%

£647m

forward contracted revenue

16%

increase in revenue



revenue **£50m**

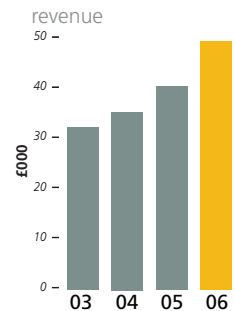
over 85,000 hours of care delivered per week, 66% contracted, average revenue per service user £99 per week, average annual growth rate over the past three years of 21%

£75m

forward contracted revenue

22%

increase in revenue



revenue **£50m**

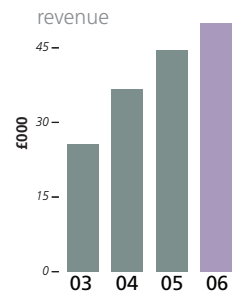
1,020 places across 157 locations, average fees £1,050 per week, made up of learning disabilities (47%), mental health (33%) and children's services (20%)

£49m

forward contracted revenue

12%

increase in revenue



revenue **£18m**

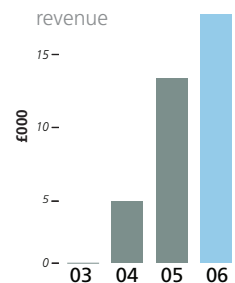
4 ISTCs, mix of acute, primary and diagnostics care services, annualised annual revenue of £44m when fully operational plus further contract wins post year-end

£143m

forward contracted revenue

35%

increase in revenue



Financial highlights

Amounts in £m unless stated

year ended 30 September	2006	2005	% Change
Revenue: group and share of joint venture	199.4	169.2	+18
Adjusted operating profit ¹	22.5	18.7	+20
Operating profit	19.5	18.2	+8
Profit before taxation, Richmond property disposal, amortisation and impairment	15.7	13.6	+15
Profit before taxation	14.2	13.5	+5
Basic EPS before Richmond property disposal, amortisation and impairment	21.47p	17.75p	+21
Basic EPS	18.02p	17.48p	+3
Dividends:			
Final proposed ²	2.53p	2.30p	+10
Total paid and proposed	3.65p	3.33p	+10

¹ Adjusted operating profit is stated before the Richmond property disposal profit of £1,340,000 (2005: £nil), amortisation of other intangible assets of £409,000 (2005: £136,000), goodwill impairment of £2,272,000 (2005: £nil) and joint venture net financing charges and taxation of £1,594,000 (2005: £448,000).

² In accordance with adopted IFRS, the final proposed dividend was not included as a liability at either 30 September 2006 or 30 September 2005.

Care UK is uniquely positioned to provide local, integrated, health and social care solutions for our patients and customers.



Financial highlights

+18%

revenue increased to £199m

+20%

adjusted operating profit increased to £23m

+15%

adjusted profit before tax increased to £16m

+21%

adjusted earnings per share increased to 21.47p



John Nash
Chairman

“Once again I am delighted to report on a strong financial performance and excellent further progress in establishing Care UK as a market leader in the provision of health and social care services.”

Gross revenue increased by 18% to £199m (2005: £169m) and basic earnings per share are up by over 20% to 21.47p before the Richmond property disposal, amortisation and goodwill impairment (2005: 17.75p). Total basic earnings per share were 18.02p (2005: 17.48p).

I am particularly pleased with the strong rate of growth in our long established residential and community care services for older people. We believe that our focus on service innovation and quality of life is setting us apart and that this is reflected in continued success with new contract awards.

Despite some specific operational challenges we have also continued to invest in our specialist mental health and children's care services and expect to see an improved rate of progress in the Specialist Care division as a consequence.

During the past few years, Care UK has been in the forefront of developments to utilise the independent sector as part of the reform of the NHS and this has resulted in the rapid creation of our Clinical Care division, bringing an increasingly significant amount of new business for us. As well as confirming the qualitative and financial success of contracts previously awarded, we are pleased to report further important new contract awards.

Employees

This rate of progress is entirely reliant on the outstanding commitment and creativity of a first rate workforce. Whether in the front line of providing compassionate and vital care to the individuals that place their trust in us, or in leadership and support roles, we know that our people are amongst the best available. During such periods of exceptional growth we rely particularly on the application, flair and sacrifice of many key staff. On behalf of the Board and shareholders, I would like to thank everyone for their contribution during the year.

Board changes

Lesley James plans to retire as a non-executive director at the Annual General Meeting in February 2007. I would like to record the Board's appreciation for Lesley's extensive contribution to Care UK during the six years of her service.

In August 2006 Ruth Carnall agreed to take up an interim assignment as Chief Executive, NHS London Strategic Health Authority and as a consequence stood down as a non-executive director of Care UK. I would like to thank Ruth for her significant contribution to the group and to wish her well with her new assignment.

Chairman's statement

Forward contracted revenue of 



I am delighted to welcome two new non-executive directors to the Board.

Michael Averill is currently Group Chief Executive of Shanks Group plc, a specialist waste management company providing services to many UK Local Authorities. James Strachan is a Member of the Court of Directors of the Bank of England, Chairman of RNID, the disability charity and was Chairman of the Audit Commission from 2002 to 2006.

Dividend

The Board is recommending a final dividend of 2.53p per share, giving a total dividend for the year of 3.65p (2005: 3.33p per share), an increase of 10%. The final dividend will be paid on 9 February 2007 to shareholders on the register on 12 January 2007. This increase is consistent with our policy of growing dividends ahead of inflation whilst maintaining a level of earnings cover appropriate to the group's investment opportunities. Dividend cover in 2006 is 6.3 times, measured against earnings before the Richmond property disposal, amortisation and goodwill impairment (2005: 5.7 times).

Outlook

Care UK is well regarded by its customers and is developing a strong reputation for solution design and service delivery. Importantly, this applies to both centrally and locally procured service commissioners.

The markets that Care UK serves are substantial and the momentum towards greater levels of independent sector participation continues unabated. Financial pressures within both Primary Care Trusts and Local Authorities are significant, but by providing better value solutions we expect to make further good progress despite those pressures.

With a strong base of contracted income and substantial new contracts in the commercial and construction phases we are assured of continued good growth during the short and medium terms. Beyond this, the Board is confident in the range and scale of opportunity and in Care UK's capability to prosper in this growing market.

John Nash

Chairman
3 January 2007

Care UK works in partnership with over 150 Primary Care Trusts and Local Authorities.

Our experience is being used to meet the commissioning needs of PCTs and local authorities across the country.

Care UK is unique in that the breadth of services that we are able to deliver ensures a more integrated approach to commissioning – across the care continuum – from acute to primary to community care.

914 million





Mike Parish
Chief Executive

Residential Care Services

Market overview and strategy

The strategy for Residential Care continues to focus on a specialist range of services, primarily for older people, with particular emphasis on rehabilitation and complex needs. The division has a strong asset base of care homes that have either been constructed by the group or transferred to us by Local Authorities. A key characteristic of this division is that approximately 75% of the 2,945 beds are contracted for the long term by public sector commissioners. This business model provides a high degree of income visibility and, therefore, resilience for the group. Around 900 of the total beds within the division, in 14 homes, are subject to PFI contracts with ownership reverting to the Local Authority at the end of the contract.

Our strategic perspective, and one supported by the Government and Local Authorities, is that people with moderate needs are best cared for in their own home with intermediate care, rehabilitation and respite care support provided as necessary. The focus of the Residential Care division is to develop such support services, working in conjunction with our Community Care division, as well as to provide residential care for higher acuity needs, including frail nursing, dementia care and a range of neurological rehabilitation services.

Review of results

Year ended 30 September	2006 £000	2005 £000
Revenue	81,327	70,350
Operating profit	15,814	12,131
Adjusted operating profit*	14,474	12,131
Operating margin*	17.8%	17.2%

*Excluding Richmond property disposal

Residential Care Services has shown further good increases in both revenue (16%) and operating profit (19%). During the year a number of new homes have either been opened or extended and other homes transferred across to Care UK to operate under management contracts:

- Greville House (Richmond, a 59-bed home of which 52 beds are contracted) opened in October 2005 as planned. This represented the completion of the Richmond contract whereby three new homes were built over a four-year period resulting in the provision of a total of 218 beds in modern purpose-built facilities;
- St Vincent's (Hammersmith & Fulham, a 92-bed home of which 70 beds are contracted) opened in April 2006 on schedule;

Chief executive's report

We provide 24-hour care for almost **3,000**

- Extensions at two Surrey homes, Broadwater Lodge (17 beds) and Appleby House (25 beds) were commissioned in October 2005 and April 2006 respectively. We are satisfied with the progress that was made by the year-end in occupancy of this new capacity and have identified a number of other homes where similar additions can be made;
- In April 2006 Care UK took over the management of an existing 49-bed care home for Poole Borough Council, and a linked day care centre as the first phase of the contract that was signed with Poole earlier in the year. A planning application has been submitted for a replacement site for the transferred facility; our intention is to build a new care home with in excess of 100 beds, of which at least 49 will be contracted under the 15-year contract signed with Poole Borough Council. This site is expected to be developed on a leasehold basis with a construction partner, a model that we would also expect to apply selectively to other developments in the future;
- Further homes have been transferred to the division under management contracts with Redbridge Primary Care Trust (Meadow Court, a 70-bed continuing care home in the grounds of the King George VI hospital in Redbridge, of which 60 beds are contracted) and the Royal Borough of Windsor & Maidenhead (Clara Court, a 76-bed care home, of which 60 beds are contracted, providing residential, nursing and continuing care dementia services). These contracts commenced in July and September 2006 respectively and run for initial periods of 5 and 10 years;
- A 10-year management contract has been signed with West Berkshire Council for the operation of a newly-built 60-bed care home for the provision of dementia care services (all of the beds are contracted). Services under this contract are expected to commence in the second half of the 2007 financial year; and
- We currently have one further home under construction. Lennox House in Islington will be an 87-bed care home with 40 beds contracted to the London Borough of Islington on a 25-year contract. This development remains on schedule to open in Summer 2007.

New services have added just over 10% to the revenue of Residential Care. The balance of revenue growth has come from the continuing development of more complex and intense services and inflation. As a result of these factors, and good control of operating costs, it is pleasing to report a further improvement in margin for the division in the year. The overall financial occupancy level for the division was very similar to recent years, at around 98%, whilst average fee rates increased during the period from around £535 per week to £579 per week.

The first of the two surplus sites arising out of the contract with the London Borough of Richmond upon Thames was sold in September 2006, resulting in a cash receipt of £2.2m and a profit on disposal of £1.3m. The second site is currently subject to detailed planning consideration and marketing is expected to commence in late 2006 or early 2007. This site is expected to generate a further exceptional cash receipt and profit, although this will not be as material as the first disposal.

Residential Care



Care UK's intermediate care service at Franklin House in West Drayton provides rehabilitation for service users whilst delivering significant savings to the local PCT and social services department. Rather than entering long-term care, patients who are ready to be discharged from hospital, but are not fit enough to return home, move into Franklin House.

Over a 6 to 12 week period they receive intensive input from a multidisciplinary team of GPs, nursing staff, physiotherapists, occupational therapists and social workers.

The rehabilitation programme and homely environment is conducive to independent living meaning that over 80% of service users are able to return to their own home following their stay at Franklin House, creating a saving of over 70% for the commissioners when compared to the cost of more traditional long-term care.



Community Care Services

Market overview and strategy

Community Care Services is focused on supporting people in their own home, caring for older people and others with specialist needs and is now providing care at a rate in excess of four million hours per year. The vast majority of activity provides personal and domiciliary care commissioned by Local Authorities, with over 64% purchased through 'block' contracts.

The strategy for Community Care is to achieve a mix of organic growth, including from new contract wins, and acquisitions of businesses targeted in locations with sufficient population density and where the group does not currently have a presence.

The group is increasingly able to differentiate the Homecare business as a high quality service provider within a market that, whilst still highly fragmented, is subject to both increasing regulatory control and more sophisticated Local Authority procurement processes. In particular, Care UK is leading the development of services from a labour-input type procurement model to a value added outcomes approach, with service providers being more empowered to focus on the individual needs of service users.

Our ability to develop services in this way is enhanced by the increasing influence of the regulatory body responsible for this market sector, The Commission for Social Care Inspection, which requires Local Authorities to adapt services in line with National Care Standards. In addition, the alignment of Primary Care Trusts with Local Authorities is generating an emphasis for commissioners to consider greater utilisation of community-based services to deliver

a more integrated health and social care solution. This is evidenced, for example, by increases in NHS-funded continuing care and long-term conditions packages being delivered in a domiciliary environment by non-nursing staff.

Review of results

Year ended 30 September	2006 £000	2005 £000
Revenue	49,678	40,695
Operating profit	1,520	2,928
Adjusted operating profit*	4,088	3,012
Operating margin*	8.2%	7.4%

*Before amortisation of other intangible assets and goodwill impairment

During the year Community Care Services showed strong growth in both revenue (22%) and operating profit (36%). In line with our strategy, the acquisitions of Ravencare, Select Care and Quality Care were completed in January, May and June 2006 respectively. Ravencare, based in Fleetwood in Lancashire, provides over 2,000 hours per week of homecare, mainly under Local Authority block contracts. Select Care, based in Birmingham, provides over 1,000 hours per week of homecare, principally under a Local Authority block contract. Quality Care is a 3-branch business based in Camberley, providing around 4,000 hours of care per week to Local Authorities in the Hampshire/Surrey/Berkshire region. The consideration paid for the three businesses amounted to around £3.9m in cash. All of these new businesses contributed to the results for the year, with organic growth in Homecare alone representing around 18% improvement in revenue and 20% in operating profit.

Chief executive's report continued

We provide over **85,000** hours

Contract wins secured this year include the London Borough of Hounslow (5 years), Greater Peterborough PCT (5-year Extracare contract), Leeds City Council (4 years) and Lincolnshire County Council (5 years), representing more than 7,000 hours per week of care. In line with our strategy to develop more innovative services, two outcome-based service contracts have been awarded during the year in Blackpool and Gateshead, both 3-year contracts.

Total Homecare hours delivered during the year were 3.98m compared with 3.28m in 2005, an increase on the previous year of 21%, with the weekly hours of care delivered at the year end being around 85,000 compared with 69,000 at the start of the year, an increase of 23%. The overall increase in hours over the period was achieved almost equally from organic growth and the impact of the acquisitions

made in the year. Whilst we anticipate further growth in Homecare during the current year, we do not expect to achieve the same exceptionally high level of organic growth as achieved in 2006.

As a consequence of the continuing difficult market conditions affecting healthcare recruitment businesses generally we have fully impaired the goodwill associated with our specialist recruitment business within the Community Care division, resulting in a non-cash charge to the income statement of £2.3m. The revenue contribution from this business in 2006 represented around 4% of the divisional total with a small positive contribution. We will retain a reduced level of activity, focussed on primary care personnel, within one of our Homecare branches, and will no longer consider this as a separate revenue stream.



Community Care



Person centred planning has been achieving impressive results for both service users and commissioners in Peterborough. Care UK's community care team observe service users before meeting with them to understand their needs, wishes and desires.

Key workers then develop care packages suited to the service users unique circumstances without being restricted to set visit times. They use palm pilots to log their visits and enter notes in real time, which avoids the 'one size fits all' approach. By accurately logging the time spent with each service user we are able to provide a bank of hours for us to help them do what they want to do, at no extra cost to the Local Authority.

of care per week in people's own homes

Specialist Care Services

Market overview and strategy

This division is focussed on specialist care services, purchased by Local Authorities and Primary Care Trusts, which are linked by psychiatric, therapeutic or social and behavioural needs, and by business models often based on contracts for individuals rather than for establishments or block contracts.

The specialist care areas of mental health, learning disabilities and children's care are all expanding but remain fragmented with a high proportion of activity still provided by the public sector. Public sector commissioners are increasingly becoming more focussed on service outcomes, including education where appropriate, therapy and rehabilitation, together with migrating people to localised community based services wherever possible.

The nature of these services makes ongoing marketing and demand management an important aspect of the division's operational focus. This demand management risk is significantly mitigated by one or both of two factors: firstly, the age and dependency profile most usually associated with service users in this division, which means that average lengths of stay will be longer than typical with care for older people, and secondly the high added value nature of the services provided means that average fee rates can be significantly higher than for long-term continuing care models.

Care UK's strategy is to grow organically where this is enabled by existing market presence, and by acquisition to establish necessary presence or where market consolidation is cost effective.

Review of results

Year ended 30 September	2006 £000	2005 £000
Revenue	50,022	44,561
Operating profit	5,567	5,506
Operating margin	11.1%	12.4%

The overall 12% increase in revenue across the division represents organic growth of 8%, with the remainder being from acquisitions completed in both the current and prior financial year. Disappointingly, the divisional operating profit increased by just over 1%, with the operating margin reducing slightly from the previous year as a result of changes in the business mix and the issues previously reported within the group's eating disorders business, Althea Park.

We are making significant investments in additional management expertise within this division and as we resolve prior year issues, and the recent contract awards and acquisitions referred to below begin to contribute to profitability, we expect to see improved momentum.

Performance overall in mental health showed a small increase over 2005, although Althea Park held back an otherwise good result. In February 2006 we opened Evergreen Lodge, a specialist 12-bed mental health care facility, providing support and rehabilitation services in partnership with Croydon Primary Care NHS Trust. In the second half of the financial year we completed the acquisition of two independent hospitals in Greater Manchester, providing specialist psychiatric and rehabilitation services to a range of service users, including a specialist female personality

Chief executive's report continued

We care for over **1,000** service

disorder unit. These two hospitals currently have capacity of 22 beds and once we have fully integrated this acquisition we will look to replicate these higher acuity services. The total cost of this investment was around £6m. Whilst occupancy levels at Althea Park remained below the level experienced in the previous year for most of 2006 this has improved in the past few months and we remain cautiously optimistic that performance will recover.

Performance in the group's learning disabilities business showed a small improvement over 2005. Services commenced in July 2006 under a new contract in Glasgow, caring for 31 additional service users with an annual contract value of over £2m. A small extension to the Chorley & West Ribble contract that commenced in July 2005 was agreed and further new contracts in Staffordshire and Stoke were also awarded. The total number of service users cared for was 478 at the period end compared with 429 at September 2005.

The children's care market has been subject to change with service commissioners seeking local and urban placements with a preference for smaller residential units and a strong emphasis on education. Corvedale, our residential children's business,

responded to this by restructuring its portfolio of homes into typically smaller units clustered around a regional education provision. As a consequence it has performed in line with expectations and towards the end of the financial year we made two additions to the portfolio, as part of our strategy of expanding geographic coverage and developing an improved mix of urban and rural locations. Promoting Positive Lives is based in North West England and comprises 10 beds in 5 homes and Little Islands is based in Bristol and Wales and comprises 24 beds in 13 homes. The combined acquisition cost of these businesses was £5.2m in cash. These steps position Corvedale as one of the stronger players in the residential children's care market with a total of 68 places and an excellent reputation for therapeutic and educational outcomes.

The investment in FSG, our specialist foster care provider, was intended to complement the Corvedale residential service. To date the performance of FSG has been disappointing as a result of localised issues relating to its geographic base in Kent. Nonetheless, we are gradually developing our presence in London and the South East and we believe that foster care expertise is strategically important to the development of a broader range of children's care solutions.

Specialist Care



Glasgow City Council awarded an important contract to the group to provide learning disabilities and associated services commencing in July 2006.

The service involves supporting over 30 service users, some with challenging behaviour, in 12 houses. The contract is worth over £2 million per annum with more than 3,000 hours of support being provided per week.

Working in partnership with the Council, Care UK was able to complete a complex TUPE transfer of staff from the previous provider and launch the service within 6 weeks of contract award.



users in a mix of care homes, independent hospitals and community-based settings

Clinical Care Services

Market overview and strategy

The Clinical Care Services division was established to participate in the Department of Health's strategy to reform the provision of both primary and secondary care services and we believe that this will continue to result in a strong flow of opportunities for Care UK over the next few years. From a standing start, Care UK is now well established as a leading player in this emerging market.

As models of healthcare change, shifting from an emphasis on hospital treatment to primary care delivered in community settings or at home, our Clinical Care Services strategy is to develop a range of services across the acute hospital and primary care continuum. Where required, we have formed consortia and joint ventures to provide the complete range of clinical competence and credibility necessary for optimal success.

Partnership Health Group ("PHG"), our joint venture with Life Healthcare of South Africa, is focussed solely on Independent Sector Treatment Centres ("ISTCs") involving surgical procedures and was the most successful bidder for the first wave of projects, winning four projects with a market share of over 15%.

In parallel, Care UK has successfully bid for primary care contracts procured both centrally by the Department of Health and locally by Primary Care Trusts. These contracts include GP practices and walk in centres, urgent care and 'out of hours' GP services, specialist medical assessment and diagnostic services and prison healthcare. Strategically we expect that local procurement by PCTs will be the main channel for future growth in this area.

Review of results

Year ended 30 September	2006 £000	2005 £000
Revenue	18,330	13,619
Operating profit/(loss)	181	(151)
Adjusted operating profit/(loss)*	294	(99)
Operating margin*	1.6%	(0.7%)

*Before amortisation of other intangible assets

It is pleasing to record the first operating profit for the Clinical Care division, which was formed only in 2004, notwithstanding the significant investment in bidding and development costs required due to the start-up nature of this division. Around 85% of the reported revenue within Clinical Care was derived from the group's 50% share of PHG's reported revenue with the balance coming from the growing number of primary care services being delivered directly by Care UK.

During the year, PHG has consistently delivered good clinical service and recorded high levels of patient satisfaction. Financial performance in the first quarter was affected by the focus on delivering the desired high standards of clinical excellence. Encouragingly, the last nine months of the financial year have seen PHG consistently attaining the financial results originally targeted within this business. We are also pleased that the number of procedures performed by PHG's two centres in Barlborough Links and Plymouth has been close to the contracted levels, with over 7,000 procedures delivered during the year, demonstrating the growing reputation of these excellent specialist hospitals.

Since the end of the financial year PHG's third treatment centre, located on the site of the Maidstone General Hospital, has been successfully commissioned and began treating patients during November 2006. Construction of the fourth centre, located at the King George's Hospital in North East London, has proceeded in line with expectations and is on schedule to open in December 2006 with the

Chief executive's report continued

Over **13,000** surgical procedures

first procedures due to be performed in January 2007. Once all four treatment centres are fully operational, PHG will have annual revenue of approximately £58m.

The group has continued to engage with the Department of Health on a number of second wave ISTC projects, both through PHG as well as independently as Care UK on projects that are essentially focussed on the primary care aspects of assessment and treatment. We are involved in detailed discussions regarding a number of projects and anticipate making a further announcement soon.

As part of the second wave of procurement for diagnostic services our recently formed joint venture, AMC Diagnostics ("AMC"), owned equally with Alliance Medical, was awarded the North East England regional diagnostics contract. The services to be provided by Care UK will include endoscopies, neurophysiological tests and audiology.

In primary care, our contract to provide out of hours services for Southend and Castle Point & Rochford PCTs in Essex has continued to operate extremely successfully and has now been extended to 2008. The first of our two commuter walk-in centres opened in Newcastle in July 2006 and the second, located close to London Victoria station, is due to open shortly. During the year we were also awarded a five-year contract for the provision of GP services and a walk-in centre in Barking & Dagenham procured under the Department of Health's pilot programme to secure additional primary care services in currently under-served areas. Services commenced in July 2006 and we are pleased with the progress achieved so far – over 700 patients have so far joined the GP list.

In June 2006 Care UK was awarded an initial three-year contract in Luton & Bedfordshire for the provision of unscheduled care, through an urgent care centre, and out of hours GP services. The urgent care centre is to be located within the Accident and Emergency department of the Luton and Dunstable NHS Hospital and is intended to provide a new model of care through a multidisciplinary clinical approach. A limited interim service under this contract commenced in October 2006.

A three-year contract for the provision of GP services to HMP Wellingborough is due to commence by the end of the calendar year. Finally in this division, a ten-year contract for the provision of GP services to the Heart of Birmingham Primary Care Trust was also awarded during the period, with services due to commence late in 2007.

The total annualised revenue value of contracts awarded to the Clinical Care division, including the group's share of PHG's contracted revenue, now amounts to around £44m when fully operational.

It is pleasing to note that a number of the contracts that have been awarded have been supported by BK Health, the GP practice with which a framework agreement was signed during the year. We are confident that this strategic partnership will continue to enhance the group's bidding activities across the whole primary care spectrum. The current pipeline of opportunities within Clinical Care is highly encouraging.

Mike Parish
Chief Executive
3 January 2007

Clinical Care



Barking and Dagenham is recognised as an area with a severe shortage of GPs and requiring significantly greater primary care and community based services. Working closely with Barking and Dagenham PCT, we have created an integrated walk-in centre and GP practice which is designed to meet the needs of the local population and to benefit from economies of scale and streamlined management.

The PCT had experienced some difficulties in recruiting GPs to the area and research showed that around 7,000 residents were unlikely to be able to register with a GP. Care UK developed a multidisciplinary approach to the contract, and the combined GP practice and walk-in centre means that we have been able to deliver a cost-effective solution for the PCT.





Paul Humphreys
Finance director

Results for the year

The group's results for the year, together with the comparative figures for 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 consolidated transition balance sheet, were published on 24 April 2006 and all amounts quoted below refer to amounts prepared in accordance with adopted IFRS. The group results show revenue, including the group's share of joint venture revenue, of £199.4m (2005: £169.2m), an increase of 18%, and adjusted operating profit of £22.5m (2005: £18.7m), an increase of 20%. Profit before tax, Richmond property disposal, amortisation and goodwill impairment totalled £15.7m (2005: £13.6m), and earnings per share on the same basis were 21.47p (2005: 17.75p), an increase of 21%. Overall profit before tax was £14.4m (2005: £13.5m) and total basic earnings per share were 18.02p (2005: 17.48p).

Significant transactions

The group's results for 2006 include the effects of two material items outside the normal course of trading. First, the disposal of the first of the two surplus sites arising from the group's residential care contract in Richmond-upon-Thames was completed in September 2006. This disposal resulted in a gross cash receipt of £2.2m and a profit on disposal of

£1.3m. There is a second disposal yet to be completed in Richmond. The planning application for this site is under consideration by the Council and marketing is expected to commence before the end of the calendar year.

Second, in the light of the continuing difficult market conditions experienced in the group's specialist recruitment business the entire goodwill previously held on the balance sheet in respect of this business, which was acquired in 2000, has been written off as a non-cash impairment charge, amounting to £2.3m. The remaining small element of this business has now been located within a Homecare branch and will no longer be considered as a separate business stream.

Impact of adopted IFRS

The principal impacts on the group's results as reported under adopted IFRS are indicated below, compared with former UK GAAP, that is UK GAAP as it applied to the group's originally reported 2005 results. A number of accounting standards applying under former UK GAAP have now been updated to be identical or very similar to adopted IFRS.

- Share-based payments: the charge arising under IFRS 2 was £0.5m (2005: £0.4m) compared with a charge arising under former UK GAAP of £0.2m (2005: £0.3m);

Finance review

Care UK employs over **8,500**

- Pensions: the additional charge arising under IAS 19 for defined benefit pensions, including the related financing charges, was £0.1m (2005: £0.1m). Under former UK GAAP this was a disclosure item only;
- Amortisation: under IFRS 3 the profit and loss account includes no charge for periodic goodwill amortisation. Under former UK GAAP this charge would have been £1.7m (2005: £1.3m). The profit and loss account does include a charge for amortisation of other intangible assets, which did not exist under former UK GAAP, of £0.4m (2005: £0.1m), as well as the charge for the impairment of goodwill in relation to the group's specialist recruitment business. Each acquisition is assessed in order to determine whether a proportion of the acquisition consideration should be accounted for as other intangible assets; so far, this has been the case for those businesses, particularly in Homecare, where clear customer relationships exist and a benefit can be measured reliably; and
- Joint ventures: under IAS 31 the results from the group's joint venture interest are shown net of financing costs and taxation whereas under former UK GAAP the group's share of profit before financing costs and taxation was included within operating profit with the group's share of financing costs and taxation being included within the respective lines in the profit and loss account. The group's share of the joint venture operating profit was £1.4m (2005: £0.2m), of the joint venture net financing cost was £1.4m (2005: £0.4m) and of the joint venture tax charge was £0.2m (2005: £nil).

Segment results

The segmental analysis is set out in detail in note 1. Margins in Residential Care, Community Care and Clinical Care all improved during the year whilst

Specialist Care reduced by just over 1% due to business mix and issues in the group's eating disorders business. The overall group margin increased compared with the previous year from 11.1% to 11.3%, excluding the impact of the Richmond property disposal, amortisation and goodwill impairment.

Taxation

Under adopted IFRS the group's share of the taxation charge of joint venture interests is deducted in arriving at the disclosed share of the loss of the joint venture. The group's headline rate of taxation on pre-tax profit, excluding the joint venture contribution, was 35.2% (2005: 33.7%). The principal reasons for this rate being higher than the standard UK corporation tax rate of 30% are the disallowance for capital allowance purposes of the majority of the group's buildings-related capital investment and the impact of the amortisation and goodwill impairment recognised in the year, which do not qualify for tax relief. The better indicator of a sustainable tax rate is to measure the tax charge against profit before amortisation and goodwill impairment and on this basis the tax rate is 29.7% (2005: 33.4%). This rate has benefited by about 1.8% from adjustments in relation to prior years.



staff

throughout England, Scotland and Wales

Net debt and funding

Group net debt increased during the year by £15.2m to £115.2m and the key reasons for this are explained further below. Equity shareholders' funds at 30 September 2006 were £63.0m (2005: £55.3m).

In September 2006 the group extended its principal borrowing facilities by a further £45m to a gross total of £180m, equal to £176.5m net of previous repayments. This comprises term loans of £141.5m, a revolving credit facility of £15m and a £20m performance bond facility. The latter item is intended to support the requirement for performance bonds that many centrally procured Department of Health contracts now have. At 30 September 2006 total facility utilisation was £119.4m, including performance bonds of £2.4m. All facilities run to an expiry date of February 2015.

Since the period end the group has entered into three additional interest-hedging arrangements: first, a collar for £18m to run to August 2009 with a cap of 6.00% and a floor of 4.73%; second, a collar for £18m with a cap of 5.75% and a floor of 4.34% running to the expiry of the facility, and third, a forward-starting swap to run from August 2009 to the expiry of the facility at a fixed rate of 4.95%. Together with the existing swaps and collar the group's term debt funding cost is now highly protected against adverse interest rate movements. Under the group's Treasury Policy this position will continue to be reviewed on a regular basis.

As part of the support for the new borrowing facility a leading property advisory firm undertook a review of market valuations of the group's freehold and long leasehold property portfolio. Whilst this valuation was not performed for statutory financial accounting purposes the indicated values resulting from this work are considered to be representative of the

current market and level of interest in good quality healthcare portfolios. The group's freehold and long leasehold property portfolio as at 30 September 2005 comprised 66 properties, which were included on the balance sheet at a combined net book value of £75.4m. The valuation review indicated a potential market value uplift in relation to these properties in excess of £100m, using accepted valuation metrics for properties of this nature.

Cash flow

Cash inflow from operations was £29.9m (2005: £19.8m). This represents a cash conversion ratio of 133% of earnings before interest, Richmond property disposal, amortisation and goodwill impairment, excluding results of joint ventures (2005: 106%). The group target for this ratio is between 115% and 120%. The performance in 2006 represents good working capital management but is also helped by the receipt of £2.6m from non-recurring grant payments and a construction-related VAT amount in relation to the Hammersmith & Fulham residential care contract; excluding these items the cash conversion ratio was 122%, above the group target rate.

Net stakeholder payments, comprising interest, tax and dividends less proceeds from share issues absorbed £12.3m (2005: £11.2m). With maintenance and infrastructure capital expenditure amounting to £4.3m (2005: £5.2m) and disposal proceeds of £2.6m (2005: £0.6m) the free cash flow available for investment was £15.9m (2005: £4.0m).

Against this available free cash flow, the investment during the year in growth activities amounted to £31.1m (2005: £32.2m). This comprised capital expenditure of £14.4m (2005: £20.4m), acquisition outflows of £14.8m (2005: £6.7m) and loans/investment to joint venture of £1.9m (2005: £5.1m).

Finance review continued

Significant acquisitions and

The principal elements of the capital expenditure programme in the year were the new-build homes and extensions within the Residential Care division, the commuter walk-in centres in Clinical Care and the new mental health and eating disorders units within Specialist Care.

A number of acquisitions were completed during the year: three new Homecare businesses and the independent mental health hospitals and children's residential businesses within Specialist Care. The combined outflow in respect of these transactions was £14.1m with the balance being made up of contingent payments in respect of acquisitions made in previous years.

In addition, the remaining 20% minority holding in Corvedale Care, the group's children's residential business was acquired in February 2006 for £0.7m, payment for which was satisfied by the issue of new Care UK shares. As a result there are now no longer any minority interests within the group.

The maximum total contingent consideration payable in future years in respect of completed acquisitions is £5.7m. The amounts expected to be paid have been provided for and are included in the group balance sheet.

The combined investment in and loans made during the year to PHG, totalling £1.9m, represented further funding for the group's share of PHG's ongoing construction programme. A further total of c£2m will be required during the current year in order to complete all of the first wave projects, which will mean that the group will have invested c£10m in PHG since its creation.

Cash interest cover, measuring all group interest charged including capitalised interest, against group earnings before interest, tax, depreciation and amortisation for 2006 was 4.8 times, compared with 4.3 times in 2005.

Dividends

Total dividends for the year, paid and proposed, amount to 3.65p (2005: 3.33p), an increase of 10%. The final dividend of 2.53p (2005: 2.30p) will be paid on 9 February 2007 to shareholders on the register as at 12 January 2007. In accordance with adopted IFRS, the proposed final dividend was not included as a liability at 30 September 2006. At 30 September 2006 a total of 648,400 shares were held by the group's Employee Benefit Trust, on which dividend payments are waived.

Future changes to adopted IFRS

Adopted IFRS is subject to ongoing review and revision by the International Accounting Standards Boards and subsequent endorsement by the EU. Care UK is continuing to monitor proposed changes to adopted IFRS, assessing how best practice develops, and gauging their impact on the group financial statements. Shareholders will be kept informed as to how such changes may impact the group's financial statements.

Paul Humphreys

Finance Director
3 January 2007

new contract wins across the group

1. John Nash, 57

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

2. Mike Parish, 47

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

3. Paul Humphreys, 48

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

4. Lesley James CBE, 57

has extensive experience in the personnel and human resources field. Having joined Tesco plc in 1985 she became Human Resources Director in 1995 until she retired in 1999. She is a non-executive director of the West Bromwich Building Society, Liberty International Plc and Alpha Airports Plc, together with being Chair of Trustees of the charity I CAN.

5. Fritz Ternofsky, 63

has wide experience in management in the hotel and catering industry. Until 2000 a main board director of Compass Group plc with chief executive responsibilities for Europe, UK and Scandinavia. He is a non-executive director of Exel Plc, Punch Taverns Plc, and Chairman of Kew Green Hotels Limited and Chairman of Close Brothers Income and Growth VCT Plc.

6. Miles Roberts, 42

has extensive financial management experience, having joined McBride Plc in 2002 as Group Finance Director, he subsequently became Chief Executive. Previous roles have included Finance Director of Costain Group Plc and Finance Director of Three Valleys Water. Miles is an ACA and holds a BSc in Civil Engineering from Bristol University.

7. Michael Averill, 55

is currently Group Chief Executive of Shanks Group plc, the waste management group, a position he has held since 1994, and a non-executive director of TDG plc. Michael joined Rechem International Ltd in 1989 as Business Development Director, Rechem subsequently being acquired by Shanks Group in 1991. Previously he was Marketing Director for Herga Electric Ltd and held various positions at Plessey Connectors Ltd.

8. James Strachan, 53

is a former Managing Director of Merrill Lynch, the investment bank, and was Chairman of the Audit Commission from 2002 to 2006. He is currently a Member of the Court of Directors of the Bank of England, a non-executive director of Legal & General plc, Chairman of RNID, the disability charity, and a Trustee of Somerset House Trust. He is a Visiting Fellow of the London School of Economics in risk and regulation.



Biographical details of directors

financial information & financial statements

Report of the directors	18
Report on corporate governance	20
Remuneration report	23
Statement of directors' responsibilities	29
Independent auditors' report	30
Consolidated income statement	31
Statements of recognised income and expense	32
Balance sheets	33
Cash flow statements	34
Accounting policies	35
Notes to the financial statements	40
5 year summary	81
Post year-end announcements	81
Notice of annual general meeting	82

Report of the directors

for the year ended 30 September 2006

The directors present their report, together with the audited financial statements for the year ended 30 September 2006.

Principal activities, trading review, and future prospects

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

A general review of the operations of the group and its future prospects is included in the Chairman's Statement, Chief Executive's Report and the Finance Review on pages 2 to 15.

Results and dividends

The consolidated income statement is set out on page 31. The profit for the year is £9,113,000 (2005: £8,783,000). Other movements in reserves are shown in note 20 of the financial statements.

The principal Key Performance Indicators (KPIs) used by the group to measure its own performance are revenue and adjusted operating profit. The figures for the year ended 30 September 2006 are set out in the Financial Highlights on page 1 together with the figures for the previous year and are discussed in the Finance Review on pages 12 to 15. At divisional level the KPIs include divisional revenue, adjusted operating profit, adjusted operating margin and, depending on the specific division, bed numbers and occupancy, hours of care provided, procedures delivered, forward contracted revenue and revenue growth, both organically, and by acquisition. The KPIs for each division are discussed in the Chief Executive's Report on pages 4 to 11.

The directors recommend the payment of a final dividend of 2.53p per share (2005: 2.30p), making a total dividend for the year of 3.65p per share (2005: 3.33p), amounting to £1,858,000 (2005: £1,662,000). The final dividend will, subject to shareholders' approval, be paid on 9 February 2007 to shareholders on the register at 12 January 2007. The final dividend proposed was not included as a liability as at 30 September 2006, in accordance with 'IAS 10 – Events after the Balance Sheet Date'.

Employment of disabled persons

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

Environmental report

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

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

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

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

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

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

Principal risks and uncertainties

The Board has overall responsibility for the group's approach to assessing risk and recognises that creating value is the reward for taking, and accepting, risk. Executive management implement the Board's policies on risk and control and present assurance on compliance with these policies. The external auditors and central compliance functions, such as internal audit, clinical governance and health and safety, which have group-wide remits, provide further independent assurance to the Board. This system is designed to manage rather than eliminate the risk of failing to achieve corporate objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

Further information is provided on internal controls in the Report on corporate governance on page 20 and on accounting estimates and judgements in note 30 to the financial statements.

Training and quality assurance

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

Employee involvement

Management regularly visit the residential homes and local branches and discuss with members of staff matters of current interest and concern to the business. In order to encourage employees to become shareholders of the company and to participate in the achievements of the group, the company operates a Save As You Earn share option scheme (see note 21 of the financial statements). Management have developed a series of internal communications tools, including e-mail notices,

newsletters and 'cascade' briefings in order to keep employees informed regarding the progress, financial position and commercial issues of the group.

Charitable and political donations

The group supports a small number of charities which themselves support the elderly and disadvantaged people. During the year it made charitable donations of £7,000 (2005: £1,000). No political donations were made (2005: £Nil).

Directors

The names of the directors who held office on 30 September 2006 are as follows:

John Nash
Mike Parish
Paul Humphreys
Lesley James
Fritz Ternofsky
Miles Roberts

Michael Averill and James Strachan were appointed as non-executive directors on 20 November 2006. Tim Chessells and Ruth Carnall resigned as directors on 2 February 2006 and 10 August 2006 respectively.

In accordance with the Articles of Association Mike Parish and Fritz Ternofsky retire by rotation and, being eligible, offer themselves for re-election. In addition, Michael Averill and James Strachan retire at the Annual General Meeting by virtue of having been appointed between Meetings. Being eligible, Michael Averill and James Strachan offer themselves for re-election. Fritz Ternofsky, Michael Averill and James Strachan have letters of appointment that require the giving of three months notice by either party; no compensation is payable by the company in the event of early termination of their appointments. Mike Parish has a rolling service contract that requires the giving of 12 months notice by either party; this service contract has no provision for predetermined compensation or liquidated damages in the event of early termination, although the company may make payments in lieu of notice at its discretion.

Details of directors' remuneration, shareholding and options over shares in the company are given in the Remuneration report on pages 23 to 28.

Substantial shareholders

The directors have been notified of the following interests requiring disclosure in the issued share capital of the company as at 21 December 2006, the latest practicable date prior to the date of printing of this report:

	Number of shares	Percentage
Aegon Investment Management Limited	5,409,808	10.49%
JAS Nash	4,306,779	8.35%
Legal & General Group plc	1,748,632	3.39%
Standard Life Group Investments	1,580,232	3.06%

Apart from the interests disclosed above, the directors are not aware of any other shareholding, which amounts to 3% or more of Care UK's issued share capital, and requires disclosure, as at 21 December 2006.

Statement on payment of suppliers

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

As at 30 September 2006 the number of billing days outstanding to suppliers by the company was 30 (2005: 30).

Auditors

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

Authority to purchase shares

The authority given at last year's AGM of the company held on 2 February 2006 for the company to purchase in the market 5,100,000 of its shares, representing approximately 10% of the issued share capital, expires on 1 February 2007. This authority was not used during the year and shareholders will be asked to give a similar authority at the forthcoming AGM.

Annual General Meeting

The Notice of the Annual General Meeting is set out on page 82. The attention of shareholders is drawn to the notes forming part of the Notice of the Annual General Meeting.

Approval of report

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by order of the Board.

Paul Humphreys

Secretary
3 January 2007

Report on corporate governance

for the year ended 30 September 2006

The directors acknowledge the principles set out in the Combined Code issued in 1998 by the committee on Corporate Governance and intend to comply with the main provisions thereof. The company has complied with the provisions of the Combined Code throughout the year. This report does not cover the group's 50% joint venture interest, Partnership Health Group Limited.

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

Internal control

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

The Combined Code requires that the directors' review the effectiveness of the group's system of internal controls. This requirement extends this review to cover all controls, including:

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

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

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

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

Key established procedures are:

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

The group's Risk Management Steering Group ("RMSG") oversees the group's risk assessment process. The RMSG is chaired by the Finance Director and comprises representatives from each of the group's operating divisions as well as key functional areas, including clinical governance.

The senior management of the operating divisions regularly review the systems of internal control in their respective divisions, which are supported by assessments of key business risks, controls and resulting exposures and confirm their compliance with them. These assessments are reviewed by the RMSG and are subsequently reported to the group Executive Committee and the Board.

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

The group has recently put in place a formal internal audit function. The function will report to the Finance Director but with direct access to the Audit Committee.

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

Going concern

After making enquiries the directors, at the time of approving the financial statements, have formed the judgement that the group has adequate resources to continue in operational

existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The statement of directors' responsibilities for preparing the financial statements is set out on page 29.

Directors

At 30 September 2006 the Board comprised the non-executive Chairman, the Chief Executive, the Finance Director and three non-executive directors. The directors' biographies appear on page 16, and detail their experience ensuring an effective Board to lead and manage the group. Since 30 September 2006 two further independent non-executive directors have been appointed to the Board. All of the non-executive directors, other than the Chairman, are considered by the Board as being independent, and Fritz Ternofsky has been identified as the senior independent director.

The non-executive directors have made arrangements to meet at least annually without the Chairman present, in order to review and evaluate the performance of the Board, its principal Committees and the Chairman. The non-executive directors seek, and take into account, the views of the executive directors in carrying out this review.

All directors have access to the Company Secretary and may take independent advice at the group's expense. The Board meets monthly and has adopted a schedule of matters reserved for its decision. The Board has established three committees with defined terms of reference as detailed below. The terms of reference of each of these Committees may be obtained by writing to the Company Secretary at the company's registered office or e-mailing a request to investorrelations@careuk.com.

Remuneration Committee

The Remuneration Committee is chaired by Lesley James and also comprises Fritz Ternofsky and Miles Roberts. The Committee recommends the remuneration of the executive directors, including the granting of share awards and service contracts. The Chairman of the Remuneration Committee will be available at the Annual General Meeting on 7 February 2007 to answer any questions regarding remuneration. The Remuneration report appears on pages 23 to 28.

Nominations Committee

The Nominations Committee comprises Lesley James, John Nash, Miles Roberts, Fritz Ternofsky and Mike Parish and is chaired by Lesley James. The Committee meets as and when necessary for the appointment of new directors. Since the end of the financial year the Committee met to consider the proposed appointments of Michael Averill and James Strachan. The Committee utilised the services of an external search consultancy in relation to both of these appointments.

Audit Committee

The Audit Committee is chaired by Miles Roberts and also comprises Fritz Ternofsky and Lesley James. The Committee has direct access to the group's auditors and liaises with executive management to review the effectiveness of internal controls.

Under its terms of reference, the Audit Committee monitors the integrity of the group's financial statements. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the group and the external auditor is maintained, including reviewing non-audit services and fees. The group has agreed a policy on non-audit work, which sets out monetary limits for work that may be undertaken by the external auditor, in order to safeguard audit independence. The Committee also reviews annually the group's systems of internal control and the processes for monitoring and evaluating the risks facing the group. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review.

In 2006, the Audit Committee discharged its responsibilities by:

- Reviewing the group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- Reviewing the appropriateness of the group's accounting policies;
- Reviewing the potential impact in the group's financial statements of certain matters such as impairments of intangible and tangible fixed asset values and proposed International Financial Reporting Standards;
- Reviewing and approving the audit fee and reviewing those non-audit fees payable to the group's external auditors that require Committee approval;

Report on corporate governance

continued

- Reviewing the external auditor's plan for the audit of the group's financial statements which included key risks on the financial statements, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit; and
- Reviewing an annual report on the group's systems of internal control and its effectiveness and reporting to the Board on the results of the review.

final results the Chief Executive and Finance Director meet regularly with fund managers, analysts and institutional investors. The company's AGM provides a forum for all shareholders to attend and put questions to the Board. All resolutions are proposed separately. All results statements, company announcements and investor presentations are accessible to all shareholders via the group's website, www.careuk.com.

Relations with shareholders

The Board understands the need for communication with both institutional and private shareholders. In addition to general presentations after the publication of the group's interim and

Board attendance

The table below shows the number of potential Board and Committee meetings for each current director, as well as the number of meetings actually attended, during the year ended 30 September 2006.

Director	Scheduled Board Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
	Potential	Actual	Potential	Actual	Potential	Actual
John Nash	13	10	–	–	–	–
Mike Parish	13	13	–	–	–	–
Paul Humphreys	13	13	–	–	–	–
Fritz Ternofsky	13	12	2	2	4	3
Lesley James	13	10	2	2	4	3
Miles Roberts	13	12	–	–	4	4
Ruth Carnall	11	10	2	2	–	–
Tim Chessells	4	2	–	–	–	–

There were no meetings of the Nominations Committee during the year ended 30 September 2006.

Remuneration report

for the year ended 30 September 2006

Unaudited information

Composition and role of the Remuneration Committee

The Remuneration Committee ("the Committee") is chaired by Lesley James, and also comprises Fritz Ternofsky and Miles Roberts. All members of the Committee are independent non-executive directors. The Committee has access to advice provided by the Chief Executive and the Group Human Resources Director. No director or senior executive is involved in any matter relating to their own remuneration. This report explains how the company has applied the principles in the Combined Code on Corporate Governance that relate to directors' remuneration. It will be submitted to the forthcoming annual general meeting for approval.

Framework and policy on executive directors' remuneration

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

Basic salary

The Remuneration Committee meets at least once a year in order to consider and set the annual salaries for executive directors. Remuneration is considered with regard to personal performance and independently compiled salary summary information, and is commensurate with their responsibilities and experience. The Committee also recognises the policy adopted generally regarding remuneration across the group in determining the appropriate arrangements for senior executives.

Incentive arrangements

Annual performance related bonuses

The bonus scheme for all executive directors is determined by reference to financial targets agreed by the Committee on an annual basis. For 2006, as in 2005, the scheme was based on the increase in profit before tax, calculated as an amount per share, compared with the prior year and was measured under UK GAAP as this was the basis on which the target was set. A bonus of 10% of salary was payable for an increase of 15% in this figure. No bonus was payable for performance below this threshold.

Bonuses are capped at 50% of salary. A bonus of 38.61% of salary was earned on this basis in 2006 (2005: 25.63%). A similar scheme has been designed for 2007 on the basis of adopted IFRS.

The Committee may also pay additional bonuses on a discretionary basis for particular qualitative aspects of performance. These are not pre-determined by the Committee, however any discretionary bonus is subject to the overall bonus cap. No discretionary bonuses were awarded in either 2006 or 2005.

No bonus payments are pensionable. Half of any total bonus amount earned in excess of 10% of salary, net of tax, must be taken in Care UK shares, which must be retained for a minimum period of 3 years.

Long Term Incentive Plan

Under the terms of the LTIP, company shares may be awarded each year to participants on a discretionary basis and subject to a maximum of 120% of base salary. The awards made during the year represented 120% of base salary for the Chief Executive, 100% of base salary for the Finance Director and between 50% and 75% of base salary for other participants. The maximum number of shares that could be vested in each executive director upon satisfaction of the performance criteria is shown in the table on page 26.

Awards under the LTIP scheme are subject to two performance criteria, the scales relating to which will be determined annually by the Committee. For the awards made in 2003 and 2004, which vest in 2006 and 2007 respectively, the targets have been set on the basis of UK GAAP as no adopted IFRS comparatives exist for those base years. The award made in 2005, which vests in 2008, has been re-calculated on an adopted IFRS basis so as to ensure that the impact of the change in accounting standards is neutral. The criteria are (a) growth in Earnings Per Share ("EPS"), and (b) return on capital employed ("ROCE"). ROCE is calculated as operating profit (after certain goodwill amortisation for awards measured under UK GAAP) divided by average capital employed, which is defined as net assets plus net debt less assets in the course of construction. EPS growth is measured over a three-year period referenced to a base year, being the year prior to that in which the award is made. ROCE is measured in the final year of the three-year vesting period. The separate elements of the overall award are calculated independently in determining the overall amount of each award that vest. Details of awards made are shown in the table on page 26. The scales applying to the current awards are:

Remuneration report

continued

Vesting level	EPS growth (compound over 3 years)		ROCE (in year 3)	
	Awards 2 and 3	Award 4	Awards 2 and 3	Award 4
Zero vesting	Below RPI + 10%	Below RPI + 10%	Below 15.0%	Below 15.0%
Vesting at 40%	At RPI +10%	At RPI +10%	At 15.0%	At 15.0%
Vesting on straight-line scale between 40% and 100%	Between RPI + 10% and RPI + 20%	Between RPI + 12% and RPI + 22%	Between 15.0% and 18.0%	Between 15.0% and 19.5%
Vesting at 100%	At or above RPI + 20%	At or above RPI + 22%	At or above 18.0%	At or above 19.5%

If the performance targets for any award are missed there is no opportunity to re-measure performance in a subsequent year.

The shares granted under Award 2 vested based on the 2006 results as follows:

- EPS - 90.92%; EPS in 2006 was 22.67p (2005: 16.72p) representing annual growth over the three-year vesting period of 21.6% pa, or 18.5% in excess of RPI growth over the same period;
- ROCE - nil; ROCE in 2006 was 15.0% (2005: 14.4%). As vested awards must be self-funding the vesting level of this part of the award was zero notwithstanding that the initial trigger level was attained.
- Overall - the overall vesting level, the average of the EPS and ROCE percentages, was 45.46%.

Employee share option scheme

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

Performance related share option scheme

Share options were granted in previous years to the Chief Executive under the Performance-Related Share Option Scheme. In broad terms the performance conditions attaching to these

options require that EPS for the previous three years must not be less than the base year increased by RPI + 5% tested annually. Details of such options are contained in the table on page 27. No further options will be granted under this scheme.

Pensions

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

Contracts of service and compensation for termination

It is the Committee's policy that executive directors are employed on rolling contracts subject to 12 months' notice from either party. The existing directors are employed on these terms. There is no provision in any director's contract for predetermined compensation or liquidated damages in the event of early termination, but the company may make payments in lieu of notice at its discretion. The Committee would review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances. The contract details for the executive directors are:

	Effective date	Unexpired term	Notice period
Mike Parish	5 November 2001	12 months	12 months
Paul Humphreys	8 July 2002	12 months	12 months

Non-executive directors

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

Non-executive directors' fees are determined having regard to the need to attract individuals of the right calibre and experience, the time and responsibilities entailed and the level of fees paid by companies of similar size. The remuneration of the Chairman and other non-executive directors is determined by the Board within the limits set out in the Articles of Association. None of the non-executive directors receives any pension contribution or participates in any incentive scheme. All of the non-executive directors letters of appointment are for periods not exceeding 3 years and provide for early termination without compensation.

The information provided until this point in the report has not been audited. The further disclosures set out below, with the exception of the line graph on page 28, have been audited.

Audited information

Directors' emoluments

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

	Date of appointment	Year ended 30 September 2006					2005
		Salaries /fees £000	Bonuses cash £000	Bonuses shares £000	Benefits £000	Total £000	Total £000
Executive directors							
Mike Parish ¹	5 Nov 01	316	77	45	15	453	360
Paul Humphreys	8 Jul 02	165	40	24	13	242	189
		481	117	69	28	695	549
Non-executive directors							
John Nash	4 Mar 94	58	–	–	–	58	45
Lesley James	1 Sep 00	29	–	–	–	29	25
Fritz Ternofsky	1 Sep 00	29	–	–	–	29	25
Miles Roberts	1 Feb 05	29	–	–	–	29	17
Ruth Carnall	22 Nov 04	22	–	–	–	22	21
Tim Chessells	17 Jul 95	8	–	–	–	8	24
		175	–	–	–	175	157
Total		656	117	69	28	870	706

Notes:

¹ The highest paid director for 2006 and 2005 was Mike Parish.

Directors' pensions

Pension contributions to defined contribution schemes are detailed in the table below. Contributions for the executive directors are made at rates of between 12.5% and 15% of salary. These contributions are subject to HM Revenue and Customs limits. Where such limits would be exceeded, the remaining amount that would otherwise have been paid as a pension contribution is provided either in the form of a contribution into a Funded Unapproved Retirement Benefit Scheme ("FURBS") or as a payment in lieu of pension benefits, at the discretion of the executive director. A payment of £34,000 (2005: £nil) was made to Mike Parish in lieu of pension benefits during the year.

	2006 £000	2005 £000
Mike Parish	10	34
Paul Humphreys	20	18
Total	34	52

Remuneration report

continued

Directors' interests in shares

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

	Shareholding as at 30 September 2006	Shareholding as at 1 October 2005	LTIP awards as at 30 September 2006	LTIP awards as at 1 October 2005
Executive directors				
Mike Parish	140,655	58,828	241,613	265,294
Paul Humphreys	50,977	19,650	97,457	102,207
Non-executive directors				
John Nash	4,306,779	4,306,779	–	–
Lesley James	9,000	9,000	–	–
Fritz Ternofsky	29,000	29,000	–	–
Miles Roberts	–	–	–	–

Notes:

¹ As at 30 September 2006, 648,400 (1 October 2005: 704,357) ordinary shares were held by the trustees of the group's employee benefit trust. All of these shares are subject to either LTIP awards or ESOS awards. The directors are deemed to have a potential interest in those shares, being beneficiaries under the trust in respect of LTIP awards.

² Since 30 September 2006 shares have been acquired by the executive directors as part of the 2006 annual bonus plan as follows:

Mike Parish	7,296
Paul Humphreys	3,811

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

	Award date	Vesting date	Market price of a share on award	Interest at 1 October 2005	Awards made in the year	Awards vested in the year	Awards lapsed in the year	Interest at 30 September 2006
Mike Parish	4 Sept 03	see note 1	£2.05	107,317	–	(74,618)	(32,699)	–
	30 Dec 03	see note 2	£2.89	83,045	–	–	–	83,045
	24 Dec 04	see note 3	£3.67	74,932	–	–	–	74,932
	22 Nov 05		£4.50	–	83,636	–	–	83,636
Paul Humphreys	4 Sept 03	see note 1	£2.05	41,158	–	(28,618)	(12,540)	–
	30 Dec 03	see note 2	£2.89	32,439	–	–	–	32,439
	24 Dec 04	see note 3	£3.67	28,610	–	–	–	28,610
	22 Nov 05		£4.50	–	36,408	–	–	36,408

Notes:

¹ The awards made on 4 September 2003 vested on the basis of the group's results for the year to 30 September 2005. A total of 69.53% of this award vested, with the balance lapsing, as follows:

Mike Parish – 74,618 shares vested with a market value of £288,000 at 30 September 2005.

Paul Humphreys – 28,618 shares vested with a market value of £111,000 at 30 September 2005.

² The awards made on 30 December 2003 vested on the basis of the group's results for the year to 30 September 2006. A total of 45.46% of this award vested, with the balance lapsing, as follows:

Mike Parish – 37,753 shares vested with a market value of £206,000 at 30 September 2006.

Paul Humphreys – 14,747 shares vested with a market value of £80,000 at 30 September 2006.

³ The awards made on 24 December 2004 will vest, subject to the performance criteria, based on the group's results for the year to 30 September 2007. The awards made on 22 November 2005 will vest, subject to the performance criteria, based on the group's results for the year to 30 September 2008.

Directors' interests in share options

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

	Grant date	Options held as at 1 October 2005	Options granted in the year	Options exercised in the year	Options held as at 30 September 2006	Exercise price pence	Date from which exercisable	Expiry date
Mike Parish								
PR SOS ¹	21-Dec-01	200,000	–	–	200,000	180.5	20 Dec 04	20 Dec 08
PR SOS ¹	4-Dec-02	50,000	–	–	50,000	124.5	3 Dec 05	3 Dec 09
SAYE ²	27-Jun-03	7,209	–	(7,209)	–	128.3	1 Aug 06	1 Feb 07
SAYE ²	21-Jun-06	–	2,543	–	2,543	367.6	1 Aug 09	1 Feb 10
Paul Humphreys								
SAYE ²	27-Jun-03	7,209	–	(7,209)	–	128.3	1 Aug 06	1 Feb 07
SAYE ²	21-Jun-06	–	2,543	–	2,543	367.6	1 Aug 09	1 Feb 10

Notes:

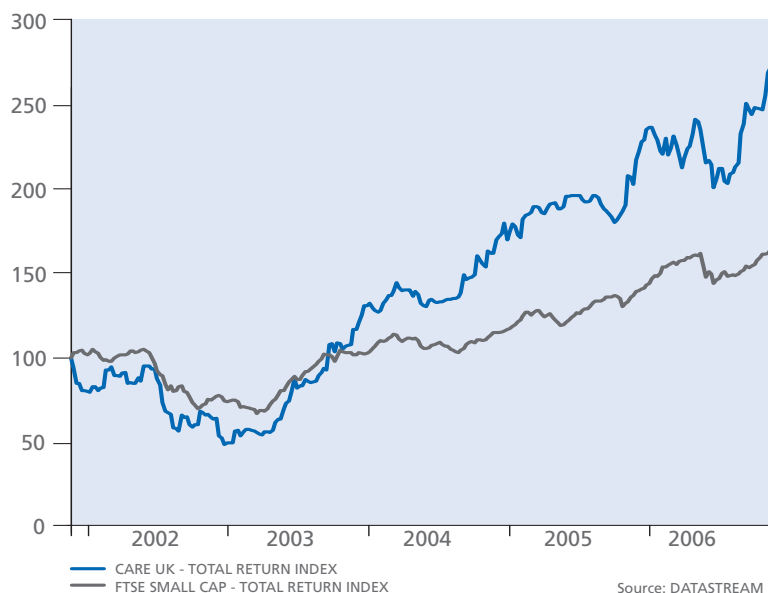
- ¹ The options granted under the PR SOS are normally exercisable in three equal tranches from the date exercisable shown in the above table, subject to satisfaction of the related performance criteria.
- ² The group operates an all-employee savings-related share option scheme, the Sharesave scheme, which is designed to provide a long-term savings and investment opportunity for employees. For full details of this scheme, see note 21 to the financial statements.
- ³ The market value of the company's ordinary shares at 30 September 2006 was 545.0p per share and the price range during the year was from 390.0p to 545.0p per share.

Remuneration report

continued

Performance graph

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



Audit

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

Approved on behalf of the Board

Lesley James

Chairman of Remuneration Committee
3 January 2007

John Nash

Chairman
3 January 2007

Statement of directors' responsibilities in respect of the directors' report and financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of Care UK plc

We have audited the group and parent company financial statements (the "financial statements") of Care UK Plc for the year ended 30 September 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 29.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Report and Finance Review that is cross referred from the Results and dividends section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 30 September 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 September 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Ipswich
3 January 2007

Consolidated income statement

for the year ended 30 September 2006

	Notes	2006 £000	2005 £000
Revenue: group and share of joint venture		199,357	169,225
Less: share of joint venture		(16,011)	(12,547)
Group revenue		183,346	156,678
Cost of sales		(146,683)	(125,842)
Gross profit		36,663	30,836
Administrative expenses		(16,959)	(12,476)
Share of loss of joint venture		(189)	(210)
Operating profit		19,515	18,150
Operating profit before Richmond property disposal, amortisation, impairment and joint venture net financing costs and taxation		22,450	18,734
Profit on Richmond property disposal		1,340	–
Amortisation of other intangible assets		(409)	(136)
Impairment of goodwill		(2,272)	–
Joint venture net financing costs and taxation		(1,594)	(448)
Operating profit		19,515	18,150
Financial income		1,032	372
Financial expenses		(6,339)	(5,008)
Net financing costs	3	(5,307)	(4,636)
Profit before tax	4, 5	14,208	13,514
Taxation	6	(5,069)	(4,630)
Profit for the period		9,139	8,884
Attributable to:			
Equity holders of the parent		9,113	8,783
Minority interest		26	101
Profit for the period		9,139	8,884
Earnings per share			
Basic	8	18.02p	17.48p
Diluted	8	17.77p	17.18p

All results derive from continuing operations.

Statements of recognised income and expense

for the year ended 30 September 2006

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Actuarial gains and losses on defined benefit pension plan	16	(196)	–	–
Deferred taxation on actuarial gains and losses	(5)	58	–	–
Net income/(expense) recorded directly in equity	11	(138)	–	–
Profit for the period	9,139	8,884	21,874	1,264
Total recognised income and expense for the period	9,150	8,746	21,874	1,264
Attributable to:				
Equity holders of the parent	9,124	8,645	21,874	1,264
Minority interest	26	101	–	–
Total recognised income and expense for the period	9,150	8,746	21,874	1,264

Balance sheets

as at 30 September 2006

	Notes	Group 2006 £000	2005 £000	Company 2006 £000	2005 £000
Assets					
Property, plant and equipment	9	141,477	126,601	1,863	1,495
Intangible assets	10	38,805	25,236	–	–
Investment in joint venture	11	7,971	6,408	8,727	6,877
Other investments	11	40	40	26,456	25,544
Trade and other receivables	13	–	–	104,303	98,159
Deferred taxation assets	19	–	–	162	140
Total non-current assets		188,293	158,285	141,511	132,215
Inventories	12	248	236	7	4
Trade and other receivables	13	26,632	23,935	7,953	6,469
Cash and cash equivalents	14	1,818	802	11,085	5,529
Properties classified as held for sale	15	–	178	–	–
Total current assets		28,698	25,151	19,045	12,002
Total assets		216,991	183,436	160,556	144,217
Liabilities					
Financial liabilities – borrowings	16	(2,744)	(3,440)	(1,889)	(3,867)
Trade and other payables	17	(22,708)	(19,267)	(1,326)	(20,629)
Current tax liabilities		(2,424)	(1,968)	–	(50)
Total current liabilities		(27,876)	(24,675)	(3,215)	(24,546)
Non-current liabilities					
Financial liabilities – borrowings	16	(114,262)	(97,392)	(114,224)	(97,335)
Other non-current liabilities	18	(5,621)	(794)	–	–
Deferred tax liabilities	19	(6,196)	(5,275)	–	–
Total non-current liabilities		(126,079)	(103,461)	(114,224)	(97,335)
Total liabilities		(153,955)	(128,136)	(117,439)	(121,881)
Net assets		63,036	55,300	43,117	22,336
Equity					
Issued share capital	20	5,155	5,100	5,155	5,100
Share premium	20	7,360	5,965	7,360	5,965
Shares to be issued	20	–	338	–	338
Merger reserve	20	–	–	8,951	8,951
Retained earnings	20	50,521	43,648	21,651	1,982
Total equity attributable to equity holders of the parent		63,036	55,051	43,117	22,336
Minority interest		–	249	–	–
Total equity		63,036	55,300	43,117	22,336

The financial statements on pages 31 to 80 were approved by the Board of Directors on 3 January 2007 and were signed on its behalf by:

Mike Parish, Chief Executive

Paul Humphreys, Finance Director

Cash flow statements

for the year ended 30 September 2006

	Notes	Group 2006 £000	2005 £000	Company 2006 £000	2005 £000
Cash inflow/(outflow) from operating activities	27	29,897	19,844	(23,300)	(6,657)
Income taxes paid		(4,107)	(3,421)	(3,575)	(3,077)
Net cash from operating activities		25,790	16,423	(26,875)	(9,734)
Cash flows from investing activities					
Payments to acquire property, plant and equipment		(18,714)	(25,592)	(592)	(549)
Proceeds from sales of property, plant and equipment		2,658	590	2	–
Interest received		946	336	6,830	242
Investment in joint venture		(98)	(388)	(98)	(388)
Loans to joint venture		(1,752)	(4,700)	(1,752)	(4,700)
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)		(14,734)	(6,706)	(186)	(1,058)
Net cash from investing activities		(31,694)	(36,460)	4,204	(6,453)
Cash flows from financing activities					
Proceeds from issue of share capital		449	210	449	210
Repurchase of own shares		(930)	(429)	(930)	(429)
Proceeds from new secured loans		18,763	30,319	18,763	30,319
Repayments of amounts borrowed		(2,502)	(2,256)	(2,000)	(2,216)
Interest paid		(6,963)	(6,418)	(6,892)	(6,370)
Payment of capital element of finance lease payments		(39)	(47)	–	–
Dividends (paid)/received		(1,727)	(1,572)	20,773	6,928
Net cash from financing		7,051	19,807	30,163	28,442
Net increase/(decrease) in net cash and cash equivalents		1,147	(230)	7,492	12,255
Cash and cash equivalents brought forward		(170)	60	3,593	(8,662)
Cash and cash equivalents carried forward	14	977	(170)	11,085	3,593

Accounting policies

The significant accounting policies of the group and parent company are set out below.

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 ('adopted IFRS'). The directors have elected to prepare the parent company's financial statements on the same basis.

Care UK's financial statements were previously prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'). UK GAAP differs in some areas from adopted IFRS. In preparing this 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 adopted 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 adopted IFRS financial statements are based.

Care UK Plc (the "company") is a company domiciled in England and Wales. The consolidated financial statements of the company for the year ended 30 September 2006 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates and jointly controlled entities.

The financial statements were authorised for issue by the directors on 3 January 2007.

Change in accounting policy

The group and company have taken advantage of the exemption in IFRS 1 that enables them 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.

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.

Financial guarantee contracts

The company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which applies for periods commencing on or after 1 January 2006.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

The company does not expect the amendments to have any impact on the financial statements for the period commencing 1 October 2006.

The total effect of the above adjustments on both group and company is to decrease reported profit for the year ended 30 September 2006 by £21,000 and to decrease net assets and shareholders' equity by the same amount.

(a) Statement of compliance

The financial statements have been prepared in accordance with EU adopted IFRS and IASB interpretations. These are the group and company's first financial statements prepared under adopted IFRS and 'IFRS 1 – First-time adoption of International Financial Reporting Standards' has been applied.

An explanation of how the transition to adopted IFRS has affected the reported financial position, financial performance and cash flows of the group and company is given in note 31.

(b) Basis of preparation

The consolidated financial statements have 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.

Accounting policies

continued

The preparation of financial statements 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 comparative financial information is 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 financial statements 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 statements of subsidiaries are included in the consolidated financial statements 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 financial statements 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 financial statements. 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

Refer to the change in accounting policies above.

(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 these properties occurred in 1992.

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

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 assuming 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, although contracts are individually reviewed in order to apply the most appropriate treatment. 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 other 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 flows, 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 financial statements, 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.

Accounting policies

continued

(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

Final dividends are recognised as a liability in the period in which they are approved by the company's shareholders. Interim dividends are recorded in the period in which they are paid.

(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 pension plans

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

ii) Defined benefit pension 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 have arisen 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 are included in the consolidated financial statements.

(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 substantively 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 substantively 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.

Notes to the financial statements

1. Segment reporting

Segment information is presented in respect of the group's business segments. The primary format, business segments, is based on the group's management and internal reporting structure. Care UK operates solely within the United Kingdom, hence no geographical segment disclosures are presented.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Business segments

The group comprises the following main business segments:

- 1 Residential Care Services operates care homes for older people.
- 1 Community Care Services supports people in their own homes, including older people and others with specialist needs.
- 1 Specialist Care Services includes the provision of care for individuals with learning disabilities or mental health needs and children's residential and foster care.
- 1 Clinical Care Services provides a range of acute and primary care services, including the group's 50% interest in Partnership Health Group Limited.

2006	Residential Care Services £000	Community Care Services £000	Specialist Care Services £000	Clinical Care Services £000	Head Office/ Eliminations £000	Consolidated £000
Total revenue – from external customers	81,327	49,678	50,022	18,330	–	199,357
Less: share of revenue of joint venture	–	–	–	(16,011)	–	(16,011)
Group revenue – from external customers	81,327	49,678	50,022	2,319	–	183,346
Segment operating profit before Richmond property disposal, amortisation, impairment and joint venture net financing costs and taxation	14,474	4,088	5,567	294	(1,973)	22,450
Richmond property disposal	1,340	–	–	–	–	1,340
Amortisation of other intangible assets	–	(296)	–	(113)	–	(409)
Impairment of goodwill	–	(2,272)	–	–	–	(2,272)
Group share of joint venture net financing costs and taxation	–	–	–	(1,594)	–	(1,594)
Operating profit/Segmental result	15,814	1,520	5,567	(1,413)	(1,973)	19,515
Net financing costs						(5,307)
Income tax expense						(5,069)
Profit for the period						9,139
Share of loss of joint venture	–	–	–	(189)	–	(189)
Segment assets	118,392	23,162	62,030	2,975	598	207,157
Investment in joint venture	–	–	–	7,971	–	7,971
Unallocated assets	–	–	–	–	1,863	1,863
Total assets	118,392	23,162	62,030	10,946	2,461	216,991
Segment liabilities/Total liabilities	(101,072)	(15,070)	(40,387)	(3,211)	5,785	(153,955)
Capital expenditure	12,259	347	4,408	1,465	656	19,135
Depreciation and amortisation	(3,952)	(583)	(888)	(188)	(286)	(5,897)
Goodwill impairment	–	(2,272)	–	–	–	(2,272)

1. Segment reporting continued

2005	Residential Care Services £000	Community Care Services £000	Specialist Care Services £000	Clinical Care Services £000	Head Office/ Eliminations £000	Consolidated £000
Total revenue – from external customers	70,350	40,695	44,561	13,619	–	169,225
Less: share of revenue of joint venture	–	–	–	(12,547)	–	(12,547)
Group revenue – from external customers	70,350	40,695	44,561	1,072	–	156,678
Segment operating profit before amortisation and joint venture net financing costs and taxation	12,131	3,012	5,506	(99)	(1,816)	18,734
Amortisation of other intangible assets	–	(84)	–	(52)	–	(136)
Group share of joint venture net financing costs and taxation	–	–	–	(448)	–	(448)
Operating profit/Segmental result	12,131	2,928	5,506	(599)	(1,816)	18,150
Net financing costs						(4,636)
Income tax expense						(4,630)
Profit for the period						8,884
Share of loss of joint venture	–	–	–	(210)	–	(210)
Segment assets	107,559	20,066	45,923	877	1,108	175,533
Investment in joint venture	–	–	–	6,408	–	6,408
Unallocated assets	–	–	–	–	1,495	1,495
Total assets	107,559	20,066	45,923	7,285	2,603	183,436
Segment liabilities/Total liabilities	(82,352)	(8,831)	(24,277)	(300)	(12,376)	(128,136)
Capital expenditure	21,188	239	4,029	17	1,036	26,509
Depreciation and amortisation	(3,023)	(377)	(718)	(54)	(122)	(4,294)

2. Operating profit

	Existing operations £000	2006 Acquisitions £000	Total £000	2005 Total £000
Revenue	180,086	3,260	183,346	156,678
Cost of sales	(144,189)	(2,494)	(146,683)	(125,842)
Gross profit	35,897	766	36,663	30,836
Administrative expenses	(16,808)	(151)	(16,959)	(12,476)
Share of loss of joint venture	(189)	–	(189)	(210)
Operating profit	18,900	615	19,515	18,150

Further details of the acquisition of subsidiaries during the year ended 30 September 2006 is given in note 10, Intangible assets.

Notes to the financial statements

continued

3. Net financing costs

	2006 £000	2005 £000
Financial income: Interest receivable	(1,032)	(372)
Financial expenses:		
Interest payable on bank overdrafts and loans	6,879	5,648
Less: amount capitalised to assets in the course of construction at an annual rate of 6.5% (2005: 7.2%)	(540)	(640)
Financial expenses	6,339	5,008
Net financing costs	5,307	4,636

4. Employees

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Staff costs for all employees, including executive directors, consists of:				
Wages and salaries	110,150	91,290	2,491	2,489
Social security costs	8,729	7,697	273	315
Pension costs	1,069	718	141	183
Equity-settled share-based transactions	496	351	256	132
	120,444	100,056	3,161	3,119

Other pension costs represent contributions to the group's pension schemes. Audited directors emoluments are disclosed in the remuneration report on pages 25 to 28.

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

	Group		Company	
	2006 Number	2005 Number	2006 Number	2005 Number
Nursing, care and support staff	8,087	7,895	–	–
Management and administration	733	573	48	54
	8,820	8,468	48	54

5. Profit before taxation

	2006	2005
	£000	£000
The following items have been included in arriving at profit before taxation:		
Depreciation – owned assets	5,447	4,106
– under finance leases	41	52
Amounts receivable by auditors in respect of services to the company and its subsidiaries:		
Audit of these financial statements	139	116
Other services relating to taxation	51	85
Services relating to information technology	3	–
All other services	60	10
Land and buildings – operating leases	2,062	1,757
Hire of other assets – operating leases	223	167
Profit on disposal of fixed assets	(1,497)	(246)
Government grants	(223)	(124)
Impairment of trade receivables	53	62
Impairment of goodwill	2,272	–
Other intangible asset amortisation	409	136

Of the auditors' remuneration £11,000 (2005: £9,000) was in respect of the company. In addition, fees paid to the auditors shown above exclude £17,000 in respect of tax advice and £33,000 relating to due diligence and related work for acquisitions made in the current and prior periods, which amounts were capitalised to the investments concerned.

6. Taxation

	2006	2005
	£000	£000
UK Corporation tax payable at 30.0% (2005: 30.0%)	4,543	3,670
Adjustment relating to previous years	(300)	1
Total current tax recognised in income statement	4,243	3,671
Deferred taxation:		
Origination and reversal of temporary differences	769	802
Acquisitions in the period	2	12
Adjustment relating to previous years	55	145
Total deferred tax recognised in income statement	826	959
Total income tax expense recognised in income statement	5,069	4,630

Notes to the financial statements

continued

6. Taxation continued

The tax charge for the year represents an effective rate on profit on ordinary activities of 35.7% (2005: 34.3%) and is higher (2005: higher) than the standard rate of corporation tax in the UK (30%, 2005: 30%). The differences are explained below:

	2006	2005
	£000	£000
Profit before tax	14,208	13,514
Profit before tax at UK Corporation tax rate of 30% (2005: 30%)	4,262	4,054
Effects of:		
Expenses not deductible for tax purposes	67	34
Other intangible asset amortisation	167	17
Impairment of goodwill	682	–
Depreciation related to ineligible assets	620	340
Effect of equity-settled share-based payments	(449)	–
Non-taxable income	(91)	(36)
(Over)/under provided in previous years	(245)	146
Losses not previously recognised	–	77
Other	56	(2)
Total income tax expense recognised in the income statement	5,069	4,630

Deferred tax recognised directly in equity

	2006	2005
	£000	£000
Deferred tax charge/(credit) on equity-settled transactions	90	(180)
Deferred tax charge/(credit) on pension liability	5	(58)
Total deferred tax recognised directly in equity	95	(238)
Total income tax expense recognised in equity	95	(238)

Total tax

	2006	2005
	£000	£000
Total current tax	4,243	3,671
Total deferred tax	921	721

7. Dividends

	2006	2005
	£000	£000
Ordinary dividends		
Final paid of 2.30p per share (2005: 2.10p)	1,157	1,067
Interim paid of 1.12p per share (2005: 1.03p)	570	505
	1,727	1,572

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2006 of 2.53p per ordinary share (subject to shareholders' approval) which will absorb an estimated £1,288,000 of funds. It will be paid on 9 February 2007 to shareholders on the register on 12 January 2007. The final dividend proposed was not included as a liability as at 30 September 2006, in accordance with 'IAS 10 – Events after the Balance Sheet Date'.

8. Earnings per share

	2006	2005
Basic EPS	18.02p	17.48p
Diluted EPS	17.77p	17.18p
Additional disclosures:		
Basic EPS before Richmond property disposal, amortisation and impairment	21.47p	17.75p
Diluted EPS before Richmond property disposal, amortisation and impairment	21.17p	17.45p

Profit attributable to ordinary shareholders

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

	2006	2005
	£000	£000
Profit attributable to shareholders	9,113	8,783
Adjustments:		
Richmond property disposal (less attributable taxation)	(938)	–
Amortisation of other intangible assets	409	136
Goodwill impairment	2,272	–
Adjusted profit attributable to shareholders	10,856	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.

In thousands of shares	2006	2005
Weighted average number of shares in issue	50,568	50,232
Adjustment: Weighted average number of dilutive shares and share options	705	882
Weighted average number of shares for calculating diluted earnings per share	51,273	51,114

Notes to the financial statements

continued

9. Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture fittings and equipment £000	Assets in course of construction £000	Total £000
Cost:					
At 30 September 2004	97,783	785	18,878	2,473	119,919
Additions	1,520	145	2,481	22,363	26,509
Acquisitions	–	–	185	–	185
Transfer from/(to) current assets	213	–	(171)	(25)	17
Transfers	8,479	–	640	(9,119)	–
Disposals	(335)	(203)	(167)	(23)	(728)
At 30 September 2005	107,660	727	21,846	15,669	145,902
Additions	1,841	69	1,971	15,254	19,135
Acquisitions	1,529	73	112	–	1,714
Transfers	20,885	–	2,946	(23,831)	–
Disposals	(333)	(63)	(4)	–	(400)
At 30 September 2006	131,582	806	26,871	7,092	166,351
Depreciation:					
At 30 September 2004	5,527	500	9,351	–	15,378
Charge for the year	1,629	146	2,383	–	4,158
Acquisitions	–	–	165	–	165
Transfer to current assets	–	–	(39)	–	(39)
Disposals	(7)	(187)	(167)	–	(361)
At 30 September 2005	7,149	459	11,693	–	19,301
Charge for the year	2,525	124	2,839	–	5,488
Acquisitions	60	46	41	–	147
Disposals	(21)	(40)	(1)	–	(62)
At 30 September 2006	9,713	589	14,572	–	24,874
Net book value:					
At 30 September 2006	121,869	217	12,299	7,092	141,477
At 30 September 2005	100,511	268	10,153	15,669	126,601
At 30 September 2004	92,256	285	9,527	2,473	104,541

Land and buildings include depreciable assets with an original cost of £94,761,000 (2005: £73,292,000) and capitalised interest of £3,242,000 (2005: £2,457,000). Included within the net book value of land and buildings are long leasehold buildings which have a net book value of £23,355,000 (2005: £21,841,000) and short leasehold buildings which have a net book value of £40,132,000 (2005: £24,919,000).

Assets in the course of construction include capitalised interest of £88,000 (2005: £399,000). The net book value of motor vehicles includes assets with a cost of £158,000 (2005: £196,000) and accumulated depreciation of £110,000 (2005: £95,000) held under finance leases. The depreciation charge on fixed assets held under finance leases was £41,000 (2005: £52,000).

Refer to note 25 for contractual commitments for the acquisition of property, plant and equipment.

9. Property, plant and equipment continued

Company	Furniture fittings and equipment £000	Assets in the course of construction £000	Total £000
Cost:			
At 30 September 2004	713	589	1,302
Additions	46	970	1,016
Transfer	130	(130)	–
Transfer to subsidiary	(3)	(466)	(469)
At 30 September 2005	886	963	1,849
Additions	89	567	656
Transfer	1,289	(1,289)	–
Transfer to subsidiary	(2)	–	(2)
At 30 September 2006	2,262	241	2,503
Depreciation:			
At 30 September 2004	243	–	243
Charge for the year	111	–	111
At 30 September 2005	354	–	354
Charge for the year	286	–	286
At 30 September 2006	640	–	640
Net book value:			
At 30 September 2006	1,622	241	1,863
At 30 September 2005	532	963	1,495
At 30 September 2004	470	589	1,059

Furniture, fittings and equipment include capitalised interest of £64,000 (2005: £nil).

See note 25 for details of contractual commitments for the acquisition of property, plant and equipment.

Notes to the financial statements

continued

10. Intangible assets

a) Acquired intangible assets

Group	Goodwill £000	Other intangible assets £000	Total £000
Cost:			
At 30 September 2004	19,618	290	19,908
Acquisitions – through business combinations	4,935	1,894	6,829
Acquisitions – separately acquired	–	188	188
Adjustment in respect of acquisitions made in prior years	(1,545)	–	(1,545)
At 30 September 2005	23,008	2,372	25,380
Acquisitions – through business combinations	13,260	2,324	15,584
Additions	–	203	203
Adjustment in respect of acquisitions made in prior years	463	–	463
At 30 September 2006	36,731	4,899	41,630
Amortisation and impairment losses:			
At 30 September 2004	–	8	8
Amortisation charge for the year	–	136	136
At 30 September 2005	–	144	144
Amortisation charge for the year	–	409	409
Impairment losses	2,272	–	2,272
At 30 September 2006	2,272	553	2,825
Net book value:			
At 30 September 2006	34,459	4,346	38,805
At 30 September 2005	23,008	2,228	25,236
At 30 September 2004	19,618	282	19,900

The amortisation of other intangible assets of £409,000 (2005: £136,000) and impairment charge of £2,272,000 (2005: £nil) are both recognised within administrative expenses in the income statement.

As permitted under IFRS 3 'Business Combinations', the fair value of the assets acquired may be re-assessed in the instance of further information arising within twelve months from the date of acquisition. The allocation of goodwill to cash-generating units on acquisitions made in the year ended 30 September 2006 was completed during the year.

Other intangible assets comprise the value attributed to ongoing customer relationships within acquired businesses and are amortised over their estimated useful economic lives, which do not exceed ten years.

Goodwill has been recognised on acquisitions where the fair value of the purchase consideration and associated costs exceeds the fair values attributable to the net identifiable assets acquired. Prior to recognising goodwill, management undertake a thorough review, on an acquisition by acquisition basis, to ensure that all other intangible assets are recognised at their fair value where they can be separately identified and reliably measured.

10. Intangible assets continued

b) Impairment charge

During the year ended 30 September 2006, the group reviewed all cash-generating units that contain goodwill for impairment in accordance with IFRS 3 'Business Combinations'.

As a result of this review those cash-generating units that provide specialist recruitment services within the Community Care Services division were found to have a carrying value in excess of their recoverable amount. Specialist recruitment services are a non-core component of the Community Care Services division. The impairments were caused by structural changes in the market that have diminished the revenue earning potential of those cash-generating units. The subsequent impairment loss recognised totalled £2,272,000.

The recoverable amount was determined by value in use. The discount rate used in the 2006 value in use calculation was 6.44% (2005: 6.67%). The goodwill associated with the impaired cash-generating units was fully impaired. There was no impairment of the cash-generating units' fixed or current assets.

c) Impairment tests for cash-generating units containing goodwill

The following divisions have significant cash-generating units that have the following goodwill carrying values:

	2006	2005
	£000	£000
Community Care Services	10,002	10,195
Specialist Care Services	24,457	12,813
	34,459	23,008

All of the recoverable amounts were measured based on value in use. Those calculations use cash flow projections based on actual operating results and the budget and forecast business plan for the three years ending 30 September 2009. A further two years of projected cash flows are incorporated using an estimated annual growth rate before a terminal value is placed on the value of the annual cash flows. No adjustment is made for the projected terminal value of the net assets of the individual cash-generating unit.

The growth rate is consistent with the long-term average growth rate for the industry. A pre-tax discount rate of 6.44% has been used in discounting the projected cash flows, representing the group's estimated weighted average cost of capital.

Community Care Services

The key assumptions in the value in use calculations are that forecast numbers of chargeable hours are met and hence that revenue and earnings before interest, tax, depreciation and amortisation ('EBITDA') projections are achieved. It is assumed that EBITDA will increase by 5.00% per annum in years 4 and 5 of the period assessed. Thereafter no growth rate has been assumed. Cash flows for years 1 to 3 are derived from the current budget and forecast business plan.

Specialist Care Services

The key assumptions in the value in use calculations are that forecast occupancy levels are met and that revenue and earnings before interest, tax, depreciation and amortisation ('EBITDA') projections are achieved. It is assumed that EBITDA will increase by between 2.20% and 5.00% per annum, depending on the nature of the service provided by the cash generating unit, in years 4 and 5 of the period assessed. Thereafter no growth rate has been assumed. Cash flows for years 1 to 3 are derived from the current forecast budget and business plan.

Notes to the financial statements

continued

10. Intangible assets continued

Assumptions

Whilst management are confident that their assumptions are appropriate in light of circumstances at the time of the review, it is possible that circumstances may change. The recoverable amounts calculated on the above basis significantly exceed the carrying values of the cash generating units that include goodwill to the extent that the assumptions made would need to change by a significant amount to eliminate the surplus.

d) Acquisitions

During the year ended 30 September 2006 the following businesses were acquired:

i) Community Care Services

– Care UK Homecare Limited acquired 100% of the issued share capital of the following entities:

Company name	Date of acquisition	Nature of business
Ravencare Limited	23 January 2006	Homecare services provider
Select Care Services (Birmingham) Limited	11 May 2006	Homecare services provider
Quality Care (SE) Limited	13 June 2006	Homecare services provider

ii) Specialist Care Services

– Corvedale Holdings Limited acquired 100% of the issued share capital/members interests of the following entities:

Company name	Date of acquisition	Nature of business
Promoting Positive Lives Limited and its wholly owned subsidiary Rowan Tree Care Limited	26 May 2006	Specialist providers of residential, therapeutic and educational services to young people
Little Islands Communities for Children (North) LLP	22 September 2006	Specialist providers of residential, therapeutic and educational services to young people

Additionally, Corvedale Holdings Limited acquired certain of the trade and assets of Elworth Care Limited on 7 September 2006. This business provides specialist residential, therapeutic and educational services to young people.

– Care UK Mental Health Partnerships Limited acquired 100% of the issued share capital of the following entities:

Company name	Date of acquisition	Nature of business
Generis Limited	8 June 2006	Provision of care to service users with complex needs and some dual diagnosis with a learning disability.
Park Villa Limited	8 June 2006	Provision of low secure psychiatric care.

– Care UK Plc acquired the remaining 20% of the issued share capital of Corvedale Holdings Limited on 16 February 2006.

During the year ended 30 September 2005 the following businesses were acquired:

Community Care Services:

– On 8 February 2005 Care UK Homecare Limited acquired 100% of the issued ordinary share capital of Seymour Care Services Limited and on 8 August 2005 acquired certain of the trade and assets of Christopher James Care. Both acquired entities provide homecare services.

Specialist Care Services:

– On 7 February 2005 Care UK Foster Care Limited acquired 100% of the issued share capital of Fostering Support Group Limited, a specialist foster care provider.

10. Intangible assets continued

All of these purchases have been treated as acquisitions.

2006	Community Care Services acquisitions			Specialist Care Services acquisitions			Total £000
	Book value £000	Fair value adjustments £000	Fair value £000	Book value £000	Fair value adjustments £000	Fair value £000	
Property, plant and equipment	34	(18)	16	1,572	(21)	1,551	1,567
Intangible assets	–	2,324	2,324	864	(864)	–	2,324
Current assets:							
Trade and other receivables	720	(49)	671	522	–	522	1,193
Cash and cash equivalents	1,043	–	1,043	380	–	380	1,423
Total assets	1,797	2,257	4,054	3,338	(885)	2,453	6,507
Liabilities:							
Trade and other payables	(388)	(17)	(405)	(752)	–	(752)	(1,157)
Current tax liabilities	(210)	–	(210)	(238)	–	(238)	(448)
Deferred tax	–	–	–	(2)	–	(2)	(2)
Total liabilities	(598)	(17)	(615)	(992)	–	(992)	(1,607)
Net assets	1,199	2,240	3,439	2,346	(885)	1,461	4,900
Goodwill on acquisition			2,067			11,193	13,260
Total consideration			5,506			12,654	18,160
Satisfied by:							
Cash paid on acquisition			4,563			10,180	14,743
Transaction costs			103			568	671
Contingent consideration			840			1,906	2,746
			5,506			12,654	18,160

Notes to the financial statements

continued

10. Intangible assets continued

2005	Community Care Services acquisitions			Specialist Care Services acquisitions			Total £000
	Book value £000	Fair value adjustments £000	Fair value £000	Book value £000	Fair value adjustments £000	Fair value £000	
Property, plant and equipment	14	(9)	5	116	(101)	15	20
Intangible assets	71	1,823	1,894	–	–	–	1,894
Current assets:							
Trade and other receivables	19	(2)	17	505	–	505	522
Cash and cash equivalents	170	–	170	72	–	72	242
Total assets	274	1,812	2,086	693	(101)	592	2,678
Liabilities:							
Trade and other payables	(43)	–	(43)	(105)	(19)	(124)	(167)
Current tax liabilities	(97)	–	(97)	(64)	–	(64)	(161)
Deferred tax	(3)	–	(3)	(9)	–	(9)	(12)
Total liabilities	(143)	–	(143)	(178)	(19)	(197)	(340)
Net assets	131	1,812	1,943	515	(120)	395	2,338
Goodwill on acquisition			1,571			3,364	4,935
Total consideration			3,514			3,759	7,273
Satisfied by:							
Cash paid on acquisition			2,900			3,021	5,921
Transaction costs			70			163	233
Contingent consideration			544			575	1,119
			3,514			3,759	7,273

The net profit (after attributable financial expenses and taxation) since their respective dates of acquisition, for the entities acquired during the financial year is:

	2006 £000	2005 £000
Community Care Services	124	65
Specialist Care Services	53	148

If the above acquisitions had all occurred at the start of the financial year in which they were acquired, the group revenue and net profit¹ would have been:

	2006,952	172,377
Revenue: group and share of joint venue		
Net profit ¹	9,431	9,028

¹Net profit: is stated after attributable financial expenses and taxation and is an indicative figure only since the acquired entities pre-acquisition accounting policies and operating costs have not been adjusted to reflect the post-acquisition position.

During the year a total of £1,038,000 (2005: £600,000) was paid in respect of contingent consideration: £860,000 (2005: £600,000) in respect of Community Care Service's acquisitions and £178,000 (2005: £nil) in respect of Specialist Care Service's acquisitions.

11. Investments

	Group		Company	
	Investment in joint venture £000	Other £000	Shares in subsidiary undertakings £000	Investment in joint venture £000
Cost				
At 30 September 2004	1,718	40	26,030	1,789
Additions	4,690	–	1,255	5,088
Adjustment to contingent consideration	–	–	(1,741)	–
At 30 September 2005	6,408	40	25,544	6,877
Additions	1,563	–	912	1,850
At 30 September 2006	7,971	40	26,456	8,727

Investment in joint venture undertaking

The group and company have the following investment in the joint venture undertaking:

	Country of incorporation	Nature of business	Group and company Ownership	
			2006	2005
Partnership Health Group Limited	United Kingdom	Provision of a range of elective and general acute care services to the National Health Service	50%	50%

In relation to the group and company's interests in the joint venture, the assets, liabilities, income and expenses are shown below:

	Group and company	
	2006	2005
	£000	£000
Current assets	1,339	1,130
Non-current assets	20,824	15,477
Current liabilities	(1,775)	(2,520)
Non-current liabilities	(18,869)	(13,879)
Net assets	1,519	208
Income	16,011	12,547
Expenses	(16,046)	(12,770)
Share of pre tax result from joint venture	(35)	(223)
Taxation	(154)	13
Share of post tax result from joint venture	(189)	(210)

The group and company's share of contingent liabilities of the joint venture undertaking is shown in note 26.

The group and company's share of capital commitments of the joint venture undertaking is shown in note 25.

Notes to the financial statements

continued

12. Inventories

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Materials and consumables	248	236	7	4

13. Trade and other receivables

a) Current assets

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade receivables	23,686	19,789	103	446
Less: Provision for impairment of receivables	(628)	(307)	–	–
Trade receivables – net	23,058	19,482	103	446
Amounts owed by subsidiary undertakings	–	–	7,342	5,306
Other receivables	1,875	2,824	85	361
Prepayments and accrued income	1,699	1,504	423	231
Corporation taxation	–	125	–	125
	26,632	23,935	7,953	6,469

b) Non-current assets

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Amounts owed by subsidiary undertakings	–	–	104,303	98,159

14. Cash and cash equivalents

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Cash at bank and in hand	1,268	802	11,085	5,529
Short term bank deposits	550	–	–	–
Cash and cash equivalents	1,818	802	11,085	5,529
Bank overdrafts	(841)	(972)	–	(1,936)
Cash and cash equivalents as shown in the statement of cash flows	977	(170)	11,085	3,593

15. Properties classified as held for sale

As at 30 September 2006 the group has no properties that have been classified as being held for sale. As at 30 September 2005 the group had two properties with an aggregate value of £178,000 that were classified as being held for sale; both properties were sold during the year ended 30 September 2006.

The gain on the sale of properties during the year ended 30 September 2006 is £1,497,000 (2005: £246,000) and has been included within administrative expenses. A gain of £1,340,000 and £157,000 on the sale of properties during the year ended 30 September 2006 is recorded respectively in the segment results of Residential Care Services and Specialist Care Services. A gain of £246,000 during the year ended 30 September 2005 is recorded in the segment results of Specialist Care Services.

16. Financial liabilities

a) Current liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Current portion of bank loans	1,889	1,935	1,889	1,931
Bank overdrafts	841	972	–	1,936
Current portion of other loans	–	499	–	–
Current portion of finance lease liabilities	14	34	–	–
	2,744	3,440	1,889	3,867

b) Non-current liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank loans	114,224	97,335	114,224	97,335
Finance lease liabilities	38	57	–	–
	114,262	97,392	114,224	97,335

c) Maturity profile of financial liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	2,744	3,440	1,889	3,867
In more than one year but not more than two years	3,394	1,993	3,394	1,936
In more than two years but not more than five years	17,441	16,058	17,403	16,058
In five years or more	93,427	79,341	93,427	79,341
	117,006	100,832	116,113	101,202

d) Maturity profile of finance leases

	Group	
	2006 £000	2005 £000
Minimum lease payments under finance leases fall due as follows:		
In one year or less	17	41
In more than one year but not more than five years	44	69
In five years or more	–	–
	61	110
Future finance charges on finance leases	(9)	(19)
Present value of finance lease liabilities	52	91

Notes to the financial statements

continued

16. Financial liabilities continued

e) Terms and conditions

The group has a secured loan facility of £176.5m, which expires on 17 February 2015. The repayment profile is analysed below, all repayments being made on a quarterly basis:

1. £56.5m carries a stepped repayment profile – £2m per annum to 23 December 2007, then £4m for the year to 23 December 2008 followed by £5m per annum to the expiry of the facility;
2. £55m carries a bullet repayment requirement at the end of the facility;
3. £30m of the facility carries a repayment requirement of 50% of the balance drawn as at 23 July 2011 for five years commencing on 23 October 2011 with a final bullet repayment of the balance at the end of the facility; and
4. £15m revolving credit facility carrying a bullet repayment requirement at the end of the facility.
5. £20m performance bond facility which expires on 17 February 2015.

In addition, the group has £3m of overdraft facilities. Loan arrangement fees incurred in the initial setting up of the group facility have been set off against the loan facility and are being recognised in the income statement over the life of the facility.

Other loans represents loan notes issued to the vendors of acquired businesses, which carry interest at base lending rate and were redeemed at par on 30 June 2006.

The bank loans, and part of the overdraft referred to in note 14, are secured by fixed and floating charges over the freehold, long leasehold and certain other assets of the group.

17. Trade and other payables

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade payables	3,745	4,527	412	396
Amounts owed to subsidiary undertakings	–	–	–	18,504
Other tax and social security	2,972	1,918	322	306
Other creditors	3,803	1,835	1	412
Accruals and deferred income	12,188	10,987	591	1,011
	22,708	19,267	1,326	20,629

18. Other non-current liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Retirement benefit obligations	920	794	–	–
Deferred government grant income	3,345	–	–	–
Contingent acquisition consideration	1,356	–	–	–
	5,621	794	–	–

The group has a number of government grants that relate to capital contributions towards the development of residential homes. Details of any unfulfilled conditions are disclosed in note 26. The total amount of government grants recognised in the income statement during the year was £223,000 (2005: £124,000) and the total of government grants held in the balance sheet as at year end is £3,584,000 (2005: £2,502,000).

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

a) Recognised deferred tax liabilities

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Group	Assets		Liabilities		Net	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Deferred taxation:						
Property, plant and equipment	(53)	(100)	7,131	6,356	7,078	6,256
Employee benefits	(784)	(801)	–	–	(784)	(801)
Tax value of loss carry-forwards recognised	–	(20)	–	–	–	(20)
Other items	(98)	(160)	–	–	(98)	(160)
Tax (assets)/liabilities	(935)	(1,081)	7,131	6,356	6,196	5,275
Offset of tax	935	1,081	(935)	(1,081)	–	–
Net tax liabilities	–	–	6,196	5,275	6,196	5,275

Company	Assets		Liabilities		Net	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Deferred taxation:						
Property, plant and equipment	–	–	101	109	101	109
Employee benefits	(272)	(235)	–	–	(272)	(235)
Other items	–	(14)	9	–	9	(14)
Tax (assets)/liabilities	(272)	(249)	110	109	(162)	(140)
Offset of tax	110	109	(110)	(109)	–	–
Net tax assets	(162)	(140)	–	–	(162)	(140)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision is:

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Net deferred tax provision/(asset)	6,196	5,275	(162)	(140)

The deferred tax liability/(asset) due after more than one year is:

Net deferred tax provision/(asset)	6,196	5,275	(162)	(140)
------------------------------------	-------	-------	-------	-------

Notes to the financial statements

continued

19. Deferred tax continued

b) Unrecognised deferred tax assets

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Tax value of loss carry-forwards unrecognised:				
– capital	972	996	36	36
– revenue	109	109	109	109
	1,081	1,105	145	145

The available tax losses, both revenue and capital, may be carried forward indefinitely.

c) Movement in temporary differences during the year

The movement on the group deferred taxation account is as follows:

Group	Balance 1 Oct 2005 £000	Recognised in income £000	Recognised in equity £000	Balance 30 Sep 2006 £000
Deferred taxation:				
Property, plant and equipment	6,256	822	–	7,078
Employee benefits	(801)	(78)	95	(784)
Tax value of loss carry-forwards recognised	(20)	20	–	–
Other items	(160)	62	–	(98)
	5,275	826	95	6,196

Group	Balance 1 Oct 2004 £000	Recognised in income £000	Recognised in equity £000	Balance 30 Sep 2005 £000
Deferred taxation:				
Property, plant and equipment	5,298	958	–	6,256
Employee benefits	(467)	(96)	(238)	(801)
Tax value of loss carry-forwards recognised	(98)	78	–	(20)
Other items	(179)	19	–	(160)
	4,554	959	(238)	5,275

The movement on the company deferred taxation account is as follows:

Company	Balance 1 Oct 2005 £000	Recognised in income £000	Recognised in equity £000	Balance 30 Sep 2006 £000
Deferred taxation:				
Property, plant and equipment	109	(8)	–	101
Employee benefits	(235)	(74)	42	(267)
Other items	(14)	18	–	4
	(140)	(64)	42	(162)

Company	Balance 1 Oct 2004 £000	Recognised in income £000	Recognised in equity £000	Balance 30 Sep 2005 £000
Deferred taxation:				
Property, plant and equipment	80	29	–	109
Employee benefits	(132)	(40)	(63)	(235)
Other items	(51)	37	–	(14)
	(103)	26	(63)	(140)

20. Reserves

Reconciliation of movement in capital and reserves

2006 Group	Attributable to equity holders of the parent					Minority interest £000	Total equity £000
	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total £000		
At 1 October 2005	5,100	5,965	338	43,648	55,051	249	55,300
Shares issued	33	416	–	–	449	–	449
Issue of shares as acquisition consideration	22	979	(338)	–	663	–	663
Purchase of own shares	–	–	–	(930)	(930)	–	(930)
Retained profit for the year	–	–	–	9,124	9,124	26	9,150
Credit in relation to equity-settled share-based payments	–	–	–	406	406	–	406
Dividends	–	–	–	(1,727)	(1,727)	–	(1,727)
Acquisition of minority interest	–	–	–	–	–	(275)	(275)
At 30 September 2006	5,155	7,360	–	50,521	63,036	–	63,036

Reconciliation of movement in capital and reserves

2005 Group	Attributable to equity holders of the parent					Minority interest £000	Total equity £000
	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total £000		
At 1 October 2004	5,081	5,548	1,352	36,470	48,451	188	48,639
Shares issued	13	197	–	–	210	–	210
Issue of shares as acquisition consideration	6	220	(119)	–	107	–	107
Adjustment to contingent consideration	–	–	(895)	–	(895)	–	(895)
Purchase of own shares	–	–	–	(429)	(429)	–	(429)
Retained profit for the year	–	–	–	8,645	8,645	101	8,746
Credit in relation to equity-settled share-based payments	–	–	–	534	534	–	534
Dividends	–	–	–	(1,572)	(1,572)	–	(1,572)
Acquisition of minority interest	–	–	–	–	–	(40)	(40)
At 30 September 2005	5,100	5,965	338	43,648	55,051	249	55,300

Notes to the financial statements

continued

20. Reserves continued

Reconciliation of movement in capital and reserves

2006	Share capital £000	Share premium £000	Shares to be issued £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Company						
At 1 October 2005	5,100	5,965	338	8,951	1,982	22,336
Shares issued	33	416	–	–	–	449
Issue of shares as acquisition consideration	22	979	(338)	–	–	663
Purchase of own shares	–	–	–	–	(930)	(930)
Retained profit for the year	–	–	–	–	21,874	21,874
Credit in relation to equity-settled share-based payments	–	–	–	–	452	452
Dividends	–	–	–	–	(1,727)	(1,727)
At 30 September 2006	5,155	7,360	–	8,951	21,651	43,117

Reconciliation of movement in capital and reserves

2005	Share capital £000	Share premium £000	Shares to be issued £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Company						
At 1 October 2004	5,081	5,548	1,352	8,951	2,305	23,237
Shares issued	13	197	–	–	–	210
Issue of shares as acquisition consideration	6	220	(119)	–	–	107
Adjustment in relation to contingent consideration	–	–	(895)	–	–	(895)
Purchase of own shares	–	–	–	–	(429)	(429)
Retained profit for the year	–	–	–	–	1,264	1,264
Credit in relation to equity-settled share-based payments	–	–	–	–	414	414
Dividends	–	–	–	–	(1,572)	(1,572)
At 30 September 2005	5,100	5,965	338	8,951	1,982	22,336

In accordance with section 230(4) of the Companies Act 1985, the company has elected not to present its own profit and loss account. The profit for the year dealt with in the company's own profit and loss account is £21,874,000 (2005: profit £1,264,000).

20. Reserves continued**a) Issued share capital**

Group and company	2006		2005	
	Shares	£000	Shares	£000
Authorised				
Ordinary shares of 10p each	70,000,000	7,000	70,000,000	7,000
Allotted, called-up and fully paid shares of 10p each				
Balance at 1 October	51,004,206	5,100	50,809,746	5,081
Allotted under share option schemes	323,129	33	129,400	13
Allotted in relation to acquired businesses	222,847	22	65,060	6
At 30 September	51,550,182	5,155	51,004,206	5,100

During the year a total of 323,129 ordinary shares of 10p each were allotted as a result of the exercise of options by employees: 8,500 shares were allotted by the exercise of No.2 Executive scheme options, 20,667 by the exercise of Performance Related Share Option Scheme options and 293,962 by the exercise of SAYE scheme options. The aggregate proceeds received as a result of the above exercise of options amounted to £449,000.

During the year 86,906 shares were issued to settle contingent consideration arising in respect of the acquisition of Corvedale Holdings Limited and 135,941 shares were issued as part consideration for the purchase of the remaining 20% minority shareholding in Corvedale Holdings Limited.

As at 30 September 2006, the group held, in the Employee Benefit Trust, 648,400 (2005: 704,357) of the company's shares.

b) Dividends

After the balance sheet date the following dividend was proposed by the directors. The dividend has not been provided for and there are no income tax consequences for the group or company.

	2006	2005
	£000	£000
Final proposed dividend of 2.53p per share (2005: 2.30p)	1,288	1,157

21. Share-based payments

The group has the following share-based payment schemes:

- 1 No.2 Executive Scheme;
- 1 SAYE Scheme;
- 1 Performance Related Share Option Scheme;
- 1 Long Term Investment Plan; and
- 1 Employee Share Option Scheme.

In accordance with the transitional provisions of 'IFRS 1 – First Time Adoption of IFRS', 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.

All share-based payment transactions have been valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value of the calculations. The expected volatility is based on historical volatility over the year preceding the date of grant. The calculation of volatility uses a statistical methodology called generalised autoregressive conditional heteroscedasticity that incorporates the occurrence of volatility clustering. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

Notes to the financial statements

continued

21. Share-based payments continued

The total income statement expense for the year relating to employee equity-settled share-based plans was £496,000 (2005: £351,000). After attributable deferred taxation, the net charge was £347,000 (2005: £66,000).

A reconciliation of option movements for the year ended 30 September 2006 is shown below:

	2006		2005	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
To be satisfied by the issue of new shares				
Outstanding as at 1 October	823,490	169.6	1,029,433	170.1
Granted	524,649	367.6	–	–
Exercised	(323,130)	(139.6)	(129,400)	(169.8)
Lapsed	(73,599)	(236.2)	(76,543)	(176.8)
Outstanding as at 30 September	951,410	285.2	823,490	169.6
To be satisfied by the acquisition of existing shares				
Outstanding as at 1 October	869,832	21.6	593,830	–
Granted	286,554	–	276,002	68.1
Exercised	(235,812)	–	–	–
Lapsed	(103,339)	–	–	–
Outstanding as at 30 September	817,235	23.0	869,832	21.6
Total outstanding as at 30 September	1,768,645	164.0	1,693,322	93.6
Total exercisable as at 30 September	479,794	82.3	584,422	78.4

For options outstanding at the end of the year the weighted average contractual lives are as follows:

Range of exercise prices	Weighted average exercise price	Number of shares	2006 Weighted average remaining contractual life (years)	Range of exercise prices	Weighted average exercise price	Number of shares	2005 Weighted average remaining contractual life (years)
0.0p	0.0p	766,007	3.0	0.0p	0.0p	818,604	3.0
124.5p to 241.5p	190.3p	442,257	8.1	124.5p to 241.5p	169.6p	823,490	6.3
367.0p to 367.6p	367.5p	560,381	4.3	367.0p	367.0p	51,228	10.0
	164.0p	1,768,645	4.7		93.6p	1,693,322	4.8

All share options are settled in equity. The share option arrangements scheduled above include a number of arrangements granted before 7 November 2002 and therefore the recognition and measurement provisions of IFRS 2 have not been applied to those grants.

The weighted average exercise price for options exercised in the year was £1.39 (2005: £1.62).

21. Share-based payments continued

The fair value per option granted in the year and the assumptions used in the fair value calculations are as follows:

	2006		2005	
	SAYE	LTIP	LTIP	ESOS
Grant date	21/06/2006	22/11/2005	24/12/2004	24/12/2004
Share price at date of grant	440.0p	454.0p	365.0p	365.0p
Exercise price	367.6p	0.0p	0.0p	367.0p
Number of employees	680	9	6	2
Shares under option	541,162	286,554	224,773	51,228
Vesting period (years)	3.0	3.0	3.0	3.0
Expected volatility	14.28%	15.17%	15.09%	15.09%
Option life (years)	3.7	3.0	3.0	10.0
Expected life (years)	3.4	3.0	3.0	6.5
Risk free rate	4.79%	4.20%	4.33%	4.39%
Expected dividends expressed as a dividend yield	0.78%	0.73%	0.84%	0.84%
Possibility of ceasing employment before vesting	36%	22%	11%	0%
Expectations of meeting performance criteria	Not applicable	41%	48%	100%
Fair value per option	121.5p	454.0p	365.0p	90.1p

a) No.2 Executive Scheme

The No.2 Executive Scheme was initially an unapproved scheme. It was subsequently approved by the Inland Revenue, although unapproved options were also granted under the scheme. This scheme was discontinued in 2003 in relation to new awards.

Options were granted with a fixed exercise price being not less than the market price of the shares under option on the date of grant. The options granted under this scheme are generally exercisable between the third and tenth anniversaries of the date of grant. Awards under this scheme are reserved for employees at senior management level and above. An employee generally has six months after leaving employment of the group to exercise any unexpired options that have vested.

For the majority of options outstanding as at the year end the following performance conditions apply. The options granted are exercisable in three equal tranches, subject to the achievement of performance conditions, measured over a three year period with the final tranche ending in the fifth year following the year of initial grant. The performance conditions for each tranche require that earnings per share for the previous three years must not be less than those for the base year increased by RPI + 5% with yearly rests.

b) SAYE Scheme

Options are granted with a fixed exercise price. The exercise price is based on the average of middle market quotations of the shares under option for three days preceding the grant date less a discount of up to twenty percent. The options granted under this scheme generally become exercisable on the third anniversary of the commencement of the related savings contract. All employees who work more than fifteen hours per week for any group company are eligible to participate in this scheme. The company anticipates making annual awards under this scheme. An employee generally has six months after leaving employment of the group to exercise any unexpired options that have vested.

c) Performance Related Share Option Scheme

None of the Performance Related Share Option Scheme options are accounted for under IFRS 2 as they were granted before 7 November 2002.

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

Notes to the financial statements

continued

21. Share-based payments *continued*

d) Long Term Investment Plan

Options have been granted as nil cost options under this scheme. The options granted under this scheme are generally exercisable at the end of the performance period and for six months thereafter. Awards under this scheme are reserved for employees at senior management level and above. If an employee leaves the employment of the group, a proportion of their award may be deemed to have vested, subject to satisfying any performance conditions and at the discretion of the Remuneration Committee. The company anticipates making annual awards under this scheme.

Awards under the LTIP scheme are subject to two performance criteria, the scales relating to which will be determined annually by the Remuneration Committee. Details of the performance criteria are further discussed in the Remuneration Report on pages 23 to 28.

e) Employee Share Option Scheme

The options granted were granted with a fixed exercise price being not less than the market price of the shares under option on the date of grant. The options granted will lapse on the third anniversary of the date of grant if the performance conditions have not been met. For the whole of the option to be capable of exercise the growth in the EPS of the company over the performance period must equal or exceed the growth in RPI by 12% per annum. If the growth in the EPS of the company over the performance period does not equal or exceed the growth in RPI by 12% per annum then the option will not be exercisable.

Awards under this scheme are available for all employees and directors with participation being at the discretion of the Remuneration Committee. If an employee leaves the employment of the group, a proportion of their award may be deemed to have vested, subject to satisfying any performance conditions and at the discretion of the Remuneration Committee.

22. Financial instruments

a) Exemption to restate comparative information for IAS 32 and IAS 39

The comparative information in these financial statements does not comply with IAS 32 and IAS 39 as the group has elected to apply the exemption in IFRS 1. As a result of these standards, financial instruments have been recognised in the opening balance sheet as at 1 October 2005.

b) Strategies, objectives and policies

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

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 and refer to note 30, Accounting estimates and judgements.

c) 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.

22. Financial instruments continued

As at 30 September 2006 the group has four derivative financial instruments, details of which are as follows:

Derivative financial instrument	Accounting treatment
A 5 year cap of £25m, commencing 12 March 2002, at LIBOR of 6.5%	At fair value through profit and loss.
A 7 year fixed rate swap of £25m commencing 14 August 2002, at LIBOR of 5.67%	Designated as a hedge.
A 7 year collar of £25m commencing 23 June 2005, with a floor of 4.00% LIBOR and ceiling of 5.75% LIBOR	Designated as a hedge.
A 10 year fixed rate swap of £20m commencing 23 June 2005, at LIBOR of 4.70%	Designated as a hedge.

On 16 November 2006 the group entered into three additional derivative financial instruments; one fixed rate swap and two collars. The additional derivative financial instruments have been designated as hedges and are designed to fix the interest rate on £66m of the group's floating interest rate term debt.

d) Foreign currency risk

See note 30, Accounting estimates and judgements.

e) Forecast transactions

The group has no derivative financial instruments, designated as hedges or otherwise, that relate to forecasted transactions.

f) Liquidity risk

See note 30, Accounting estimates and judgements.

g) Recognised assets and liabilities

Changes in the fair value of interest rate swaps that cash flow hedge monetary liabilities with variable interest rates and for which no hedge accounting is applied are recognised in the income statement. The changes in fair value of the interest rate swaps are recognised as part of net financing costs.

h) Embedded derivatives

In accordance with 'IAS 39 – Financial Instruments: Recognition and Measurement', the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such derivatives were identified as a result of the review.

i) Financial instruments

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice:

Group 2006	Note	Effective interest rate %	Total £000	6 months or less £000	1-2 years £000	2-5 years £000
Loan to joint venture	11	13.07	6,452	6,452	–	–
Cash and cash equivalents	14	0.00	1,818	1,818	–	–
Secured bank GBP floating loans	16	6.05	(116,113)	(116,113)	–	–
Finance lease liabilities	16	16.60	(52)	–	(38)	(14)
Bank overdrafts	16	5.50	(841)	(841)	–	–

Notes to the financial statements

continued

22. Financial instruments continued

Company 2006	Note	Effective interest rate %	6 months or less £000
Loan to joint venture	11	13.07	6,452
Cash and cash equivalents	14	0.00	11,085
Secured bank GBP floating loans	16	6.05	(116,113)

j) Sensitivity analysis

In managing interest rate risks the group aims to reduce the impact of short-term fluctuations on the group's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

Based on the position as at 30 September 2006, it is estimated that a general increase of one percent in interest rates would decrease the group's profit before tax by approximately £470,000. The effect of only those interest rate swaps and collars that existed as at 30 September 2006 have been included in this calculation. Since 30 September 2006 the group has entered into further derivative financial instruments which have been designated as hedges, which could significantly reduce these sensitivities.

k) Fair values

The fair value of derivative financial instruments is as follows:

	Assets £000	Liabilities £000
Interest rate swaps at fair value through profit and loss	1	–
Interest rate swaps used as cash flow hedges of monetary liabilities with variable interest rates	386	(386)

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	Group		Company	
		2006	2006	2006	2006
		Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loan to joint venture	11	6,452	9,639	6,452	9,639
Cash and cash equivalents	14	1,818	1,818	11,085	11,085
Amounts owed by subsidiary undertakings	13	–	–	111,645	113,718
Bank overdrafts	14	(841)	(841)	–	–
Secured bank GBP floating loans	16	(116,113)	(113,492)	(116,113)	(113,492)
Finance lease liabilities	16	(52)	(58)	–	–
Deferred government grants	18	3,584	2,131	–	–

22. Financial instruments *continued*

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments reflected in the above tables:

1 Derivatives

Derivative financial instruments are valued by using broker quotes.

1 Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

1 Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

1 Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogenous lease agreements. The estimated fair values reflect changes in the interest rates.

1 Interest rates for determining fair value

Unless specified above, the group uses the government yield curve as of 30 September 2006 plus an adequate constant spread to discount financial instruments. The interest rates used are as follows:

	2006
Loans and borrowings	6.5%
Leases	11.2%
Receivables	6.0%

23. Pensions

The group has established a number of pension schemes, both defined contribution and defined benefit, covering many of its employees.

a) Defined contribution plan

The group has a defined contribution group personal pension plan. Contributions to this scheme are charged to the income statement as they fall due. The assets of this scheme are held separately from those of the group in independently administered funds.

Pension costs for defined contribution schemes are as follows:

	2006	2005
	£000	£000
Defined contribution schemes	482	297

As at 30 September 2006 contributions amounting to £50,000 (2005: £44,000) were payable to the scheme and are included in creditors.

Notes to the financial statements

continued

23. Pensions continued

b) Defined benefit plans

As a result of certain contractual arrangements with a small number of its public sector customers, the group contributes to two defined benefit schemes approved by the Government Actuary's Department, which provide benefits based on final pensionable pay. The schemes are funded by payments to independently managed funds, the assets of which are held separately from those of the group. Contributions to the defined benefit pension schemes are charged to the income statement so as to spread the cost of pensions over employees' estimated working lives with the group. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method.

Care UK LG Pension Scheme

The most recent valuation was as at 1 April 2003. An interim valuation of the scheme was carried out as at 1 April 2004. At the date of the interim actuarial valuation, 1 April 2004, the market value of the scheme's assets was £1,250,000 and the actuarial value of those assets represented 68% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Employer contributions amounted to £835,000 (2005: £409,000) for the year ended 30 September 2006. Employer contribution rates in respect of future years have currently been agreed at 29.45% (2005: 28.9%) of total pensionable salaries.

Dorset County Council Pension Fund

During the year ended 30 September 2006 a number of employees of Poole Borough Council transferred to the group but continued to be members of the Dorset County Council Pension Fund. Under the terms and conditions of the transfer, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

Under the terms of the transfer, the group is indemnified for any shortfall in scheme assets and for any increase in contributions required by any future actuarial valuation; hence the group has no constructive or legal obligation to fund a deficit on the associated segregated portion of the scheme. Accordingly, the group has recognised an asset equal to the current deficit on the segregated portion of the scheme. This reimbursement asset has been presented as offsetting the current scheme deficit on the segregated portion of the scheme and is therefore included within retirement benefit obligations.

The most recent valuation of this scheme was as at 31 March 2004. As at 3 April 2006, being the date the employees were transferred to the group, the segregated portion of the scheme showed that the value of the scheme's assets was £1,391,000 and that the actuarial value of those assets represented 74% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Employer contributions amounted to £56,000 for the period to 30 September 2006. Contribution rates in respect of future years will be 11.2% of total pensionable salaries.

23. Pensions continued

IAS 19 disclosures

The principal assumptions made by the actuaries were:

	2006	2005
	%	%
Rate of increase of pensionable salaries	4.10	3.80
Rate of increase in pensions in payment and deferred pensions	3.10 – 5.00	5.00
Discount rate	5.00 – 5.10	5.00
Inflation assumptions	3.10	2.80
Expected return on plan assets	4.50 – 7.50	5.75

The expected return on plan assets is based on market expectations at the beginning of the period for returns over the entire life of the benefit obligation.

The assumed life expectancy is assumed to be:

- for the Care UK LG Pension Scheme, mortality before retirement is in accordance with mortality table A67-70 (ult), rated down 3 years for males and 6 years for females, and mortality after retirement is in accordance with mortality tables PMA80/PFA80 (C=2010), rated down 8 years for males and 6 years for females; and
- for the Dorset County Council Pension Fund, mortality for current pensioners is in accordance with PA92 c2004 less 2 years and PA92 c2014 less 2 years for prospective pensioners.

The amounts recognised in the balance sheet are determined as follows:

	2006	2005
	£000	£000
Present value of funded obligations	(6,052)	(2,731)
Fair value of plan assets	4,458	1,937
Reimbursement asset	674	–
Fair value of plan assets	5,132	1,937
Net liability	(920)	(794)

The major categories of plan asset as a percentage of total plan assets are as follows:

	2006	2005
	%	%
Equities	17	–
Unitised with profits policy	57	100
Gilts, other bonds, property and cash	13	–
Reimbursement asset	13	–
	100	100

None of the pension schemes own any shares in the company.

Notes to the financial statements

continued

23. Pensions continued

The amounts recognised in the income statement are as follows:

	2006	2005
	£000	£000
Current service cost	1,174	536
Interest cost	209	114
Expected return on plan assets	(233)	(93)
Past service cost	(52)	–
Other	–	12
Total included within staff employee benefits expense	1,098	569

The total charge of £977,000 (2005: £569,000) was included in cost of sales.

Changes in the present value of the defined benefit obligations are as follows:

	2006	2005
	£000	£000
Present value of obligations, 1 October	2,731	1,865
Transfer of obligations	1,883	–
Service cost	1,174	536
Interest cost	209	114
Actuarial losses	88	228
Other	(33)	(12)
Present value of obligations, 30 September	6,052	2,731

Changes in the fair value of the plan assets are as follows:

	2006	2005
	£000	£000
Fair value of plan assets, 1 October	1,937	1,300
Transfer of assets	1,391	–
Expected return on plan assets	233	93
Employer contributions	891	524
Plan participants' contributions	30	–
Actuarial (losses)/gains	(13)	32
Other	(11)	(12)
Reimbursement asset	674	–
Fair value of plan assets, 30 September	5,132	1,937

23. Pensions continued

Analysis of the movement in the balance sheet liability:

	2006	2005
	£000	£000
Balance sheet liability, 1 October	(794)	(565)
Transfer of deficit	(492)	–
Total expense as above	(1,098)	(569)
Employer contributions	891	524
Net actuarial losses from participants gains recognised in the year	(101)	(196)
Other	–	12
Reimbursement asset	674	–
Balance sheet liability, 30 September	(920)	(794)

Cumulative actuarial gains and losses recognised in equity are as follows:

	2006	2005
	£000	£000
At 1 October	(259)	(63)
Net actuarial losses recognised in the year	(101)	(196)
Reimbursement asset	117	–
At 30 September	(243)	(259)

The actual return on plan assets was £307,000 (2005: £125,000).

History of experience of gains and losses

	2006	2005	2004
Experience adjustments arising on scheme assets (including reimbursement asset):			
Amount (£000)	161	32	4
Percentage of scheme assets	3%	2%	<1%
Experience adjustments arising on scheme liabilities:			
Amount (£000)	145	228	2
Percentage of present value of the scheme liabilities	2%	2%	<1%
Present value of the scheme liabilities (£000)	6,052	2,731	1,865
Fair value of the scheme assets (£000)	5,132	1,937	1,300
Deficit (£000)	(920)	(794)	(565)

The contributions expected to be paid during the financial year ending 30 September 2007 amounts to £995,000.

Notes to the financial statements

continued

24. Commitments under operating leases

Non-cancellable operating lease rentals are payable as follows:

Group	2006	2006	2005	2005
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	3,191	231	1,864	231
Within two to five years	9,561	73	5,061	162
After five years	27,242	–	22,392	4
	39,994	304	29,317	397

Company

Operating leases which expire:

Within one year	449	–	449	–
Within two to five years	1,759	–	1,777	–
After five years	3,327	–	3,758	–
	5,535	–	5,984	–

The group and company lease various offices and operational facilities under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The group also leases plant and machinery under non-cancellable operating lease agreements.

25. Capital commitments

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Contracted for, but not provided	6,113	4,020	170	–

The group and company had no capital commitments in respect of its joint venture, Partnership Health Group Limited, (2005: £nil). The group and company's share of the capital commitments of its joint venture, Partnership Health Group Limited, is £3,870,000 (2005: £9,239,000).

26. Contingent liabilities

Care UK Plc, together with its joint venture partner, Life Healthcare Group (Proprietary) Limited, has given certain limited financial guarantees to the senior debt provider and public sector parties in relation to the performance and funding of certain companies within the Partnership Health Group joint venture group. The joint venture partners do not expect these liabilities to crystallise.

Partnership Health Group Limited had no contingent liabilities (2005: £nil).

The group has a number of government grants that would have to be repaid if the related property were to be sold. As at 30 September 2006 the amount that may be repayable is £159,000 (2005: £176,000).

27. Cash generated from operations

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Profit for the period	9,139	8,884	21,874	1,264
Depreciation	5,488	4,158	286	111
Amortisation	409	136	–	–
Impairment of goodwill	2,272	–	–	–
Profit on disposal of fixed assets	(1,497)	(246)	–	–
Increase in inventory	(12)	–	(3)	(4)
(Increase)/decrease in debtors	(2,057)	(4,200)	2,836	(134)
Decrease in assets held for resale	–	52	–	–
Increase/(decrease) in creditors	5,214	1,233	(24,377)	(1,155)
Equity-settled share-based payments	376	351	256	132
Share of loss of joint venture	189	210	–	–
Financial income	(1,032)	(372)	(29,477)	(9,025)
Financial expense	6,339	5,008	6,745	5,598
Tax expense	5,069	4,630	(1,440)	(3,444)
Cash generated from operations	29,897	19,844	(23,300)	(6,657)

28. Related party transactions

a) Identity of related parties

The group has a related party relationship with its subsidiaries and joint venture (see note 29) and with its directors and executive officers.

b) Pension plans

During the year, the group made various payments to defined benefit pension plans. Details of these transactions are set out in note 23 to the financial statements.

c) Joint venture

During the year ended 30 September 2006 £460,000 (2005: £338,000) of services were provided and £994,000 (2005: £343,000) of interest charged to, the joint venture by the group. At the year end, the group was owed £6,748,000 (2005: £6,697,000) by Partnership Health Group Limited; the company was owed £6,536,000 (2005: £6,656,000). Transactions with joint ventures are priced on an arm's length basis. Loans and interest receivable from the joint venture are disclosed in notes 11 and 17 respectively. No dividends were received from the joint venture in either 2006 or 2005.

d) Subsidiaries

The group centrally manages its financing arrangements. Amounts are transferred within the group, dependent on the operational needs of individual companies. The directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Similarly the directors do not consider it meaningful to set out the interest and dividend payments made within the group as these are a function of the group's central financing arrangements. There are no provisions or expenses recognised for doubtful debts with subsidiary undertakings.

Details of the company's cash and indebtedness are set out in notes 14 and 16 and amounts due or owed to subsidiary undertakings are set out in notes 13 and 17.

Notes to the financial statements

continued

28. Related party transactions continued

e) Transactions with key management personnel

Identity

The group and company have identified key management personnel as being the directors of the company and the members of the executive committee.

Shareholdings

Key management personnel have the following percentage of the voting shares of the company:

	2006	2005
	%	%
Directors	8.8	8.7
Other key management personnel	0.2	0.1

Compensation

Key management personnell's compensation is as follows:

	2006	2005
	£000	£000
Salaries and short-term employment benefits	1,928	1,520
Contributions to defined contribution plans	164	122
Share-based payments	404	256
	2,496	1,898

The key management figures above include executive directors. Total remuneration is included in note 4. Further details on the directors' emoluments are disclosed in the remuneration report on pages 23 to 28.

Loans and other transactions

There have been no loans or other transactions with key management personnel in 2006 or in 2005.

29. Principal subsidiary and joint venture undertakings

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

Subsidiaries	Nature of business	Ownership interest	
		2006 %	2005 %
Care UK Community Partnerships Group Limited	Provides specialist health care, intermediate care, social care and facilities management services for the elderly	100	100
Care UK Homecare Limited	Provides carers to support people in their own home and provides specialist healthcare professionals	100	100
Care UK Mental Health Partnerships Limited	Provides specialised nursing and residential care for adults with mental illness	100	100
Althea Park Limited	Provides specialist psychiatric care for people with eating disorders or prone to self harm	100	100
Care Solutions Limited	Provides residential and supported living services, care, and day activities, for people with learning disabilities	100	100
Corvedale Holdings Limited	Provides specialist residential, therapeutic and educational services to young people	100	80
Care UK Foster Care Limited	Provides fostering placements and therapeutic activities to young people in care	100	100
Care UK Clinical Services Limited	Provides primary care services to the public sector	100	100
Joint venture			
Partnership Health Group Limited	Provides orthopaedic elective and related nursing and physiotherapy services	50	50

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

30. Accounting estimates and judgements

a) Key sources of estimation uncertainty and critical accounting judgements in applying the group's accounting policies

The preparation of the financial statements in conformity with adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year then ended. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

Estimates are used in accounting for allowances for uncollectible receivables, depreciation, amortisation and impairment, share-based payments, pensions, taxes and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period that an adjustment is determined to be required.

Management discussed with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates.

Notes to the financial statements

continued

30. Accounting estimates and judgements continued

Significant accounting judgements in applying the group's accounting policies have been applied by the group in order to prepare the consolidated financial statements with respect to the value of other intangible assets and goodwill (note 10), share-based payments (note 21), financial instruments (note 22) and pensions (note 23) and are described below:

1 Intangible assets

The group uses forecast cash flow information and estimates of future growth to assess whether goodwill and other intangible assets are impaired, and to determine the useful economic lives of its intangible assets. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment may be triggered at that point, or a reduction in useful economic life may be required.

1 Share-based payments

Details of the principal assumptions used in calculating the share-based payments expense are given in note 21. When a grant of share awards is made, management review the estimates and assumptions used and update them accordingly.

1 Financial instruments

Refer to the section on financial risk management below.

1 Pensions

Details of the principal actuarial assumptions used in calculating the recognised liability for the defined benefit plans are given in note 23. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this liability in the future.

b) Financial risk management

i) Financial risk factors

The group's operations and debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity and interest rates. The group has a risk management programme that seeks to limit the potential adverse effects on the financial performance of the group by using financial instruments, including debt and other derivative financial instruments to fix interest rates.

The Board of directors have the responsibility for settling the risk management policies applied by the group. The policies are implemented by the Finance Director who receives regular reports from all operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. A group treasury objectives, strategy and policies paper sets out specific guidelines to manage interest rate and liquidity risk and the use of financial instruments to manage these.

1 Interest rate risk

See note 22, financial instruments.

1 Credit risk

The group has no significant concentrations of credit risk. Customers are typically local authorities, Primary Care Trusts and NHS Trusts. The group seeks to minimise the risk by obtaining, where practicable, long-term contracts for the services provided particularly where there is a substantial capital investment.

1 Liquidity risk

The group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The group has available bank and overdraft facilities totalling £179.5m, which is sufficient, together with the cash flow arising 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.

30. Accounting estimates and judgements continued

1 Price risk

The group is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage inflation pressures, including legislative changes concerning the minimum wage level.

1 Foreign exchange risk

Care UK has a minimal level of foreign currency transactions; therefore no forward foreign exchange contracts are entered into. Foreign currency transactions are translated and settled at the prevailing spot rates on the date of the respective transactions, with any resulting gain or loss being taken to the income statement. There are no overseas subsidiaries and there are no financial assets or liabilities denominated in foreign currencies. All financial assets and liabilities are held in the group's functional currency (Sterling).

ii) Accounting for derivative financial instruments and hedging activities

The group uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. The accounting for derivative financial instruments and hedging activities is described in the group accounting policies above.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to document the relationship between the hedged item and the hedging instrument and demonstrate that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

iii) Fair value estimation

See note 22, financial instruments.

31. Transition to International Financial Reporting Standards

On 24 April 2006 Care UK issued restated adopted IFRS group financial information for the year ended 30 September 2005, the six months ended 31 March 2005, and the group's opening adopted IFRS balance sheet as at 1 October 2004. The restated adopted 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 information set out in that summary can be downloaded from the company's website at www.careuk.com/IFRS.asp.

a) Principal effects of adopted IFRS on the financial statements

The principal effects of adopted IFRS on the financial statements are expected to be as set out below.

i) Business Combinations

– 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.

Notes to the financial statements

continued

31. Transition to International Financial Reporting Standards *continued*

– 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 group 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 group net assets as at 30 September 2005 by the same amount. There was no effect on the company income statement or balance sheet.

ii) 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 group 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 group net assets as at 30 September 2005 is £0.3m. The net effect on the company income statement in the year ended 30 September 2005 is to decrease profit for the period by £0.16m. The increase in company net assets as at 30 September 2005 is £0.54m.

iii) 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 group income statement in the year ended 30 September 2005 and group net assets as at 30 September 2005 decreased by £0.6m. There was no effect on the company income statement or balance sheet.

iv) 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.

31. Transition to International Financial Reporting Standards *continued*

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 group net assets as at 30 September 2005 by £1.2m and to decrease company net assets by £10.84m as at 30 September 2005.

v) 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 group reported profit for the year ended 30 September 2005 or group net assets as at 30 September 2005.

vi) 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 group income statement in the year ended 30 September 2005 and group net assets as at 30 September 2005 increased by £0.1m. There was no effect on the company income statement or balance sheet.

vii) 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 and company'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.

viii) 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 or company as at 30 September 2005.

Notes to the financial statements

continued

31. Transition to International Financial Reporting Standards continued

b) Reconciliation of profit under UK GAAP to adopted IFRS for the year ended 30 September 2005

	Note	Group 2005 £000	Company 2005 £000
Reported under UK GAAP		7,844	4,919
Pensions	i)	(23)	–
Share-based payment	ii)	(42)	(155)
Reversal of goodwill amortisation and additional intangible asset amortisation	iii)	1,119	–
Other adjustments to deferred taxation	iv)	(14)	–
Dividends	v)	–	(3,500)
Reported under adopted IFRS		8,884	1,264

Notes:

The key accounting changes are summarised below:

- i) Being the inclusion of the defined benefit pension plan deficit and related tax.
- ii) Being the inclusion of an expense for equity-settled share-based payments (share options).
- iii) Being the reversal of goodwill amortisation and additional intangible amortisation.
- iv) Being sundry adjustments to deferred taxation.
- v) Being the adjustment for dividends from subsidiaries declared after the balance sheet date.

c) Reconciliation of equity under UK GAAP to adopted IFRS as at 30 September 2005 and 1 October 2004

	Note	Group		Company	
		30 September 2005 £000	1 October 2004 £000	30 September 2005 £000	1 October 2004 £000
Reported under UK GAAP		53,224	47,794	32,642	30,469
Intangible assets	i)	1,119	–	–	–
Dividends	ii)	1,157	1,067	(10,843)	(7,433)
Pension plan	iii)	(556)	(395)	–	–
Share-based payment	iv)	292	95	537	201
Deferred taxation	v)	64	78	–	–
Reported under adopted IFRS		55,300	48,639	22,336	23,237

Notes:

The key accounting changes are summarised below:

- i) Being the adjustments to goodwill and intangible asset amortisation.
- ii) Being the adjustment for dividends declared after the balance sheet date.
- iii) Being the inclusion of the defined benefit pension plan deficit and related tax.
- iv) Being the adjustment for equity-settled share-based payments (share options).
- v) Being sundry adjustments to deferred taxation.

d) Cash flow statements

There are no material adjustments required to the group or company cash flow statements.

5 year summary

	2006 £000	2005 £000	2004 ¹ £000	2003 ¹ £000	2002 ¹ £000
Turnover	199,357	169,225	140,639	114,882	97,794
Adjusted operating profit ²	22,450	18,734	15,686	10,343	8,429
Profit before tax	14,208	13,514	10,696	6,268	4,876
Basic adjusted earnings per share ²	21.47p	17.75p	15.36p	9.54p	7.04p
Basic earnings per share	18.02p	17.48p	13.46p	8.36p	6.02p
Dividends per share:					
– Interim paid	1.12p	1.03p	0.95p	0.90p	0.85p
– Final proposed ³	2.53p	2.30p	2.10p	1.90p	1.70p

Notes:

- 1 Results not restated under adopted IFRS. The principal adjustments to translate the UK GAAP results to adopted IFRS are: cease amortisation of goodwill and provide additional intangible asset amortisation; inclusion of the pension deficit; additional equity-settled share-based payments expense; the joint venture presentational adjustment which presents joint venture tax and interest within operating profit; and cease accruing for proposed dividends.
- 2 Adjusted operating profit is operating profit adjusted for Richmond property disposal (2006), amortisation of other intangible assets (2006, 2005), impairment of goodwill (2006), joint venture net financing costs and taxation (2006, 2005) and amortisation of goodwill (2004, 2003, 2002). Basic adjusted earnings per share is basic earnings per share adjusted for the post tax effects of those items listed above.
- 3 Under adopted IFRS the final dividend proposed was not included as a liability in the balance sheet, in accordance with 'IAS 10 – Events after the Balance Sheet Date'.

Post year-end announcements

Since the announcement of the group's preliminary results on 20 November 2006 significant contract awards have been achieved by both Care UK and PHG, as set out in the announcements made by the group, which are reproduced below.

6 December 2006:

Preferred bidder award for CATSS project

"Care UK Plc has been appointed preferred bidder by the Department of Health for a Clinical Assessment, Treatment and Support Services ("CATSS") project in Manchester.

The services to be provided by Care UK will include specialist assessment and diagnostic procedures along with a range of minor surgical treatments at three community-based centres within the Greater Manchester area. The services for this substantial and important five-year project are expected to commence towards the end of calendar year 2007 and will involve capital investment of around £12m."

21 December 2006:

Preferred bidder award for ISTC project

"Care UK Plc's 50% owned joint venture company, Partnership Health Group ("PHG"), has been appointed preferred bidder by the Department of Health for a major Independent Sector Treatment Centre ("ISTC") project serving patients across Hampshire and the Isle of Wight.

The services to be provided by PHG include approximately 100,000 elective cases across 8 specialities offered from facilities at the Royal South Hants Hospital in Southampton and running of all services, including approximately 40,000 elective and non-elective cases across 15 specialities, from the newly constructed Lymington New Forest Hospital. PHG will also provide urgent care services from Lymington including a Medical Admissions Unit, Minor Injuries Unit and diagnostics.

The services for this important five-year project are expected to commence in July 2007 and will involve capital investment of around £21m."

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the shareholders of Care UK Plc will be held at Fox Court, 14 Gray's Inn Road, London, WC1X 8WS on 7 February 2007, at 11:30am for the following purposes:

ORDINARY BUSINESS

Resolutions will be proposed

1. To receive and adopt the audited financial statements and the report of the directors for the year ended 30 September 2006.
2. To declare a final dividend of 2.53p per ordinary share for the year ended 30 September 2006.
3. To re-elect M Parish as a director, being a director who retires by rotation in accordance with Article 106 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
4. To re-elect F Ternofsky as a director, being a director who retires by rotation in accordance with Article 106 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
5. To elect M Averill as a director, being a director appointed during the year who retires in accordance with Article 84 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
6. To elect J Strachan as a director, being a director appointed during the year who retires in accordance with Article 84 of the Company's Articles of Association, and who, being eligible, offers himself for re-election.
7. To re-appoint KPMG Audit Plc as auditor to the Company.
8. To authorise the directors to determine the remuneration of the auditor.
9. To approve the remuneration report for the year ended 30 September 2006.

SPECIAL BUSINESS

Resolutions will be proposed

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

THAT the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot grant options over, offer or otherwise deal with or dispose of relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,718,656 provided that this authority shall expire on 30 April 2008 or the date of the next Annual General Meeting of the Company after the passing of this Resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

THAT, subject to the passing of Resolution 10 above, the directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by Resolution 10 above as if Section 89 (i) of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

- (a) the allotment (otherwise than pursuant to subparagraph (b) below) of equity securities up to an aggregate nominal value of £257,798; and

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

and shall expire on 30 April 2008 or on the date of the next Annual General Meeting of the Company after the passing of this Resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

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

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

- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 5,155,000 (being approximately 10 per cent of the ordinary shares in issue at the date of the passing of this Resolution);
- (ii) the maximum price at which ordinary shares may be purchased is, in respect of an ordinary share contracted to be purchased on any date, an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from The Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary share is contracted to be purchased and the minimum price which may be paid for such ordinary shares is 10 pence per ordinary share being the nominal value, in each case exclusive of any expenses and advance corporation tax payable by the Company; and
- (iii) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or at the expiry of 12 months after the date of the passing of this Resolution, whichever shall be the earlier, save that the Company may before such expiry enter into a contract or contracts to purchase ordinary shares under which such purchase or purchases may be completed or executed wholly or partly after the expiration of this authority.

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

That Article 86 of the Company's Articles of Association be amended so as to replace the figure "£200,000" in the first sentence with the figure "£300,000".

This change is to propose an increase in the maximum limit on fees paid to directors. This change, if approved by shareholders, will allow the Board to increase the level of fees paid to its non-executive directors in the future. It will also allow the Board to appoint additional non-executive directors if it considers this to be necessary or appropriate. Non-executive directors' fees are determined by the Board. It is expected that this increase in the limit of directors' fees will be sufficient for the foreseeable future. This limit was last increased at the 2004 AGM.

By order of the board

PJ Humphreys

Secretary

Registered Office:

Connaught House

850 The Crescent

Colchester Business Park

Colchester, Essex CO4 9QB

3 January 2007

Notice of annual general meeting

continued

Voting and proxies

1. All holders of ordinary shares of 10p each in the Company are entitled to attend and speak at the meeting. A holder of ordinary shares of 10p each is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. Completion of the form of proxy will not prevent a holder of ordinary shares of 10p each from attending the meeting and voting in person.
3. The form of proxy to be valid must be lodged together with the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power of attorney or other authority, at Computershare Services Plc, P.O. Box 1075, Bristol BS99 3FA, not later than 48 hours before the time of the meeting or adjourned meeting.
4. In the case of an individual, the form of proxy must be signed by the appointor or by his/her attorney duly authorised in writing.
5. In the case of a corporation, the form of proxy must either be executed under its common seal or under the hand of a duly authorised officer or attorney.
6. In the case of a joint holder, the vote of the first named holder on the register of members (whether voting in person or by proxy) will be accepted to the exclusion of the votes of the other joint holder(s) in respect of the joint holding.
7. Any alteration in the form of proxy must be initialled.

Documents available for inspection

Copies of the service contracts between the Company and the directors of the Company as well as the register of interests of directors and their families in the capital of the Company, will be available for inspection at the registered office of the Company, Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex C04 9QB, during business hours on any weekday from the date of this notice until the close of the meeting and also at the venue of the meeting for 15 minutes prior to and throughout the meeting.

Explanatory note regarding the special business

1. At the Annual General Meeting of the Company held on 2 February 2006, the directors were authorised for the purposes of section 80 of the Companies Act 1985 to allot relevant securities up to an aggregate nominal value of £1,703,051.87. That authority will expire at the conclusion of the forthcoming Annual General Meeting. At this year's Annual General Meeting, an Ordinary Resolution (Resolution 10) will be proposed to grant the directors authority under section 80 of the Companies Act 1985 to allot relevant securities up to the maximum aggregate nominal amount of £1,718,656 representing one third of the total share capital of the Company in issue as at the date hereof. The directors have no present intention of exercising that authority. The authority to allot up to £1,718,656 nominal aggregate value of relevant securities to be conferred pursuant to Resolution 10 will lapse on 30 April 2008 or on the conclusion of the next Annual General Meeting of the Company after the passing of such resolution, whichever is the earlier.
2. At the Annual General Meeting of the Company held on 2 February 2006, the directors were empowered for the purposes of section 95 of the Companies Act 1985 to allot equity securities which are to be paid up in cash as if section 89(1) of the Companies Act 1985 did not apply to any such allotment for the purposes, *inter alia*, of the allotment of equity securities for cash up to an aggregate nominal value of £255,457.78 otherwise than by way of rights. That authority will expire at the conclusion of the forthcoming Annual General Meeting. At this year's Annual General Meeting, a Special Resolution (Resolution 11) will be proposed to empower the directors to allot equity securities for cash pursuant to the authority conferred upon them by Resolution 11 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that such power will be limited to the allotment of equity securities in connection with rights issues (as described in Resolution 11) and the allotment of equity securities up to an aggregate nominal value of £257,798, representing approximately 5 per cent of the total ordinary share capital in issue in the Company as at the date hereof. The authority will terminate no later than 15 months after the passing of the Special Resolution.
3. Resolution 12 authorises the Company generally to make purchases of its own shares, as permitted by the Companies Act and The London Stock Exchange Listing Rules. The directors will only exercise this power of purchase in circumstances which, in the opinion of the directors should result in an improvement in earnings per share for the remaining shareholders and all such purchases will be made through The London Stock Exchange.

Directors, executive committee and advisors

Directors

John Nash ^N	Non-Executive Chairman
Mike Parish ^N	Chief Executive
Paul Humphreys	Finance Director
Lesley James ^{ARN}	Non-Executive, Chairman of the Remuneration and Nomination Committees
Fritz Ternofsky ^{ARN}	Senior Independent Non-Executive
Miles Roberts ^{ARN}	Non-Executive, Chairman of the Audit Committee
Michael Averill	Non-Executive
James Strachan	Non-Executive

^A – member of the Audit Committee

^R – member of the Remuneration Committee

^N – member of the Nomination Committee

Secretary and registered office

Paul Humphreys
Connaught House, 850 The Crescent, Colchester Business Park,
Colchester, Essex CO4 9QB.

Registered and incorporated in England No. 01668247.

Executive committee

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

Tony Hosking	Managing Director – Residential Care Services
Roger Booker	Managing Director – Community Care Services
John Turk	Managing Director – Children's Care Services
Sushil Jathanna	Managing Director – Clinical Care Services
Steve Bennett	Group Human Resources Director
Andrew Russell	Group Director of New Business Ventures
Geoff Benn	Group Marketing Director

Auditors

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

Bankers

Bank of Scotland, Corporate Banking, 7th floor,
155 Bishopsgate, Bishopsgate Exchange, London, EC2M 3YB.
Royal Bank of Scotland Plc, Corporate Banking, 8th Floor,
280 Bishopsgate, London, EC2M 4RB.
Allied Irish Bank plc, St Helen's, 1 Undershaft,
London, EC3A 8AB.
HSBC Bank plc, Midland House, 26 North Station Road,
Colchester, Essex, CO1 1SY.

Brokers

Investec Securities Ltd, 2 Gresham Street, London, EC2V 7QP.
Brewin Dolphin Securities, Commercial Union House,
39 Pilgrim Street, Newcastle upon Tyne, NE1 6RQ.

Registrars and transfer office

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



CARE UK

Care UK Plc

Connaught House, 850 The Crescent
Colchester Business Park, Colchester
Essex CO4 9QB

Tel 01206 752552. Fax 01206 517187. enquiries@careuk.com

www.careuk.com