

# supporting leading innovating

Care UK Plc  
Half-yearly report  
2008



## Corporate statement

Care UK's goal is to be the leading provider of health and social care services in the UK. We will achieve this by meeting the needs of individuals and of service commissioners, providing outstanding care and building on our reputation for service excellence and innovation. This will enable us to deliver value to shareholders through profitable and sustainable growth.

# growing



# Operational and financial highlights

→ Future growth underpinned by strong forward contracted revenue of £1.1bn (2007: £0.9bn) excluding revenue at preferred bidder stage

## Social Care

- Residential Care organic revenue and operating profit growth of 8%
- New home successfully commissioned in Kensington & Chelsea
- Strong growth in Community Care – revenue up 30%, operating profit up 28%
- Community Care acquisition in South Gloucestershire and significant new contract award in Hertfordshire
- Improved margin in Specialist Care, operating profit growth of 9%, all organic

→ Current funding headroom of over £80m, sufficient to fund all current development plans

## Health Care

- Strong growth in revenue and operating profit, mainly driven by Mercury Health acquisition
- Excellent PHG clinical and financial performance continuing
- Wave 2 ISTC contracts in Manchester and Southampton expected to reach financial close shortly
- Five new primary care contract awards/preferred bidder appointments
- West Midlands diagnostics service decommissioned in February 2008, compensation claim under negotiation

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IBC Directors

“Care UK’s strategy continues to be demonstrably well founded as the NHS and Local Authorities implement their plans to further utilise the independent sector to deliver services, to shift care from hospital environments to the community and to empower consumers to exercise choice and control.

The board believes that Care UK’s strategy to address both the Health and Social Care markets is a significant market differentiator given the increasingly evident transition towards greater integration of care pathways across the traditional boundaries between the NHS and Social Services. We are confident that our chosen markets continue to offer good opportunities for delivering exceptional long-term value to shareholders.”

John Nash, Chairman

### Cautionary statement

This half-yearly report has been prepared solely to provide additional information to shareholders to assess the group’s strategies and the potential for those strategies to succeed. The half-yearly report should not be relied on by any other party or for any other purpose, and in particular, securities should not be acquired in reliance on the information contained in the half-yearly report.

The half-yearly report contains certain forward-looking statements about operational and financial matters. Because they relate to future events and are subject to future circumstances, these forward-looking statements are subject to risks, uncertainties and other factors. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

# Operations and finance review

During the first six months of the financial year Care UK has continued to perform well and the underlying result for the period demonstrates material progress. Group revenue, including the group's share of joint venture revenue, has increased by 41% to £166.7m and adjusted operating profit is up by 37% to £15.9m.

The Social Care businesses of Residential, Community and Specialist Care have shown further good growth with an aggregate revenue increase of over 13%. Organic growth contributed 8% with the balance coming from acquisitions made within Community Care as we continue with our geographical expansion strategy.

Revenue and adjusted operating profit within the Health Care division have both increased substantially compared with the first half of 2007. This largely reflects the impact of Mercury Health, acquired in April 2007, although the group's ISTC joint venture, PHG, has also continued to perform very strongly both operationally and financially. Excluding the impact of the termination of the West Midlands diagnostics contract, performance of the Health Care business has generally been ahead of expectations.

The Wave 2 ISTC contracts in Manchester and Southampton are expected to reach financial close in the near future.

Progress is being made on compensation discussions with the Department of Health ("DoH") regarding the termination of the West Midlands diagnostics contract as well as claims for certain costs relating to Wave 2 ISTC contracts that were either materially changed or terminated by the DoH after the preferred bidder appointment had been confirmed. Our review of the

consequences of the termination has resulted in certain impairment charges being made. The final settlement of the compensation claims will be reflected in future results statements.

The board believes that Care UK's strategy to address both the Health and Social Care markets is a significant market differentiator given the increasingly evident transition towards greater integration of care pathways across the traditional boundaries between the NHS and Social Services. We are confident that our chosen markets continue to offer good opportunities for delivering exceptional long-term value to shareholders.

## Financial results

Amounts in £m unless stated	31 March 2008	31 March 2007	Change (%)
Revenue: group and share of joint venture	<b>166.7</b>	118.0	+ 41%
Adjusted operating profit *	<b>15.9</b>	11.6	+ 37%
Profit before group taxation, amortisation and impairment charges	<b>8.7</b>	7.1	+ 23%
(Loss)/profit attributable to equity shareholders	<b>(10.8)</b>	4.7	—
Basic EPS	<b>(19.23p)</b>	9.16p	—
Adjusted basic EPS *	<b>10.99p</b>	9.80p	+ 12%

\* Including joint venture operating profit; before amortisation of intangible assets and impairment of goodwill and intangible assets.

# leading



## Dividend

The board is recommending an interim dividend of 1.33p per share (2007: 1.22p), an increase of 9%. The interim dividend will be paid on 7 July 2008 to shareholders on the register as at 6 June 2008.

## Financing, treasury and cash flow

Total net debt reduced during the period by £14.3m to £156.0m. The total borrowing facilities available to the group at the period end amounted to £254.5m. Including the £28.4m of cash held at the period end the total funding headroom available to the group amounted to £83.5m after taking into account £14.9m of performance bonds and guarantees issued under the group's syndicated facility. The group is aware of the significant pressure that exists in the current credit market, in relation to both the availability and pricing of credit, and does not currently foresee the need to raise additional debt financing in order to fund the group's development plans. The group syndicated facility is committed until February 2015.

Two further interest rate swaps were entered into in January 2008 for a total amount of £30.0m at a fixed rate of 4.97%. These swaps run to the facility expiry date in February 2015. In total, £165.0m, around 90% of gross borrowings, is now covered by such arrangements.

Cash inflow from operating activities was £27.0m (2007: £13.7m). This represents a cash conversion ratio, measured against adjusted operating profit excluding share of profit of joint venture, of 205% (2007: 142%). This is materially higher than the group's target for this measure and has resulted from strong working capital management in the first half year as well as a non-recurring inflow of c£3.0m from the diagnostics business. We would not expect cash conversion to be maintained at this exceptionally high level in the second half of the financial year.

Net investment was £2.8m in the period (2007: £11.4m), lower than expected as a result of changed timing on the ISTC Wave 2 projects, the receipt of £3.0m of loan repayments from PHG and the disposal of part of a care home site. The group's current expectation is that capital expenditure in the second half of the year will be significantly higher than in the first half with the main spend being expected on the Manchester Clinical Assessment and Treatment Support ("CATS") service ISTC Wave 2 contract and the Residential Care development in Slough that is due to be completed in spring 2009. The only acquisition completed during the first half was Badminton Healthcare Limited, a small homecare provider based in South Gloucestershire where the initial consideration paid was £1.2m.

Stakeholder cash flows (interest, tax, dividends and equity issues) represented a net outflow of £9.8m (2007: £6.5m).

The group's Interim Management Statement released on 6 February 2008 referred to consideration being given to a property company structure with the principal purpose of creating a vehicle for further greenfield developments and, potentially, for acquisitions of existing portfolios. An initial portfolio of existing freehold care homes from within the Residential Care division, comprising around 560 beds, has been identified that would be suitable to form the basis of a separate property company, with a gross value of approximately £60m. We have retained a leading property adviser to market this portfolio to potential investors on the basis of a 50:50 joint venture structure. Any transaction remains subject to prevailing market conditions and, should the board consider that it is not appropriate to proceed, we would pursue the available growth opportunities through other routes.

## West Midlands diagnostics contract

Following the announcement by the Department of Health ("DoH") in November 2007 that it had elected voluntarily to terminate the West Midlands diagnostics contract that had formed part of the Mercury Health business, the decommissioning process for this contract was concluded during February 2008. This process was handled extremely professionally by the divisional management team, with patients' interests being given priority by Care UK throughout this process. The group submitted claims for compensation in respect of this contract in February 2008 and we have subsequently been engaged in a process of detailed review by, and discussion with, the DoH. We are hopeful that the resolution of this matter will be satisfactorily achieved during the second half of the current financial year.

On the acquisition of Mercury Health an intangible asset was recognised in relation to the diagnostics customer contract. The termination of the contract means that the diagnostics customer contract and relationship have no future economic value. Consequently an impairment charge of £2.0m has been recognised in the group income statement for this item. The related deferred tax credit of £0.6m has consequently also been released to the income statement.

The termination of this contract has required an impairment review to be carried out in relation to the carrying values of those assets formerly employed in the diagnostics business.

# Operations and finance review continued

## West Midlands diagnostics contract continued

The carrying value of the goodwill recognised on the acquisition of Mercury Health, prior to the impairment review, was £28.0m. The impairment review has resulted in a goodwill impairment charge of £13.9m being recognised in the group income statement as a consequence of the termination of the diagnostics contract. There are no tax consequences arising from this impairment. No impairment charge has been recognised in relation to the net tangible assets of the diagnostics business.

The impairment charges are non-cash and non-recurring items and do not affect the underlying results of the group's continuing business. They also have no effect on the observance of the key financial covenants contained in the group's banking facility agreements.

## Review of operations

### Social Care

The group's Social Care activities comprise the Residential Care, Community Care and Specialist Care divisions, which are commented on individually below. Aggregate Social Care revenue has increased by 13.0% with a rise in adjusted operating profit of 11.6%, a particularly creditable result given the cost impact of the additional holiday entitlements arising under the Work and Families Act 2006, which took effect from 1 October 2007.

## Residential Care

	2008	2007
Six months ended 31 March	£m	£m
Revenue	49.0	45.2
Operating profit	7.9	7.3
Operating margin	16.1%	16.1%

The Residential Care division achieved growth in both revenue and operating profit of just over 8%. The total number of beds, including daycare places, was 3,293, an increase of 7% from the previous year. Financial occupancy ('beds paid for') was close to 97% in the first half, similar to the first half of 2007 with average fee rates in the period of £611 per week, an increase of 3.5%.

Ellesmere House, the new residential care facility in Kensington & Chelsea, commenced services in March 2008. This is a 60-bed facility operated by Care UK under a minimum 21-year management contract, with 30 of the beds being contracted.

We are making good progress on the construction of the new care home in Slough with service provision expected to commence by summer 2009. This is a 120-bed residential care facility, with 90 beds contracted for a minimum period of 15 years.

Good progress is also being made on the construction of the greenfield care home in Chelmsford. This is a 120-bed home, all of which is intended for self-pay residents, and is expected to open as planned in summer 2009.

The planning appeal submitted by our development partner for our chosen site in Poole has not been successful. We are now looking for alternative sites in the area and are also working with the local Council on other options for providing the required services. We continue to manage the former council-owned residential care facility that was transferred to the group, as well as providing both daycare and homecare services.

# delivering



## Review of operations continued

### Residential Care continued

In Richmond we have now agreed the marketing plan for the sale of the second of two surplus sites in the Borough, following the successful disposal of the first site in 2006. The sale is now expected to be completed in the next financial year.

The Commission for Social Care Inspection ("CSCI"), the current regulatory body for social care, is now publishing star ratings for care homes on its website ([www.csci.org.uk](http://www.csci.org.uk)). Care homes will now be rated with between zero and three stars; a system intended to provide both the public and Local Authorities with a simple method of comparing the quality of care given in different homes. The ratings published by CSCI for Care UK's homes show good and continuing improvement with no homes having zero stars.

We continue to see a steady flow of opportunities for growth in Residential Care including greenfield developments, new contracts and extensions of existing homes.

### Community Care

	2008	2007
	£m	£m
Six months ended 31 March		
Revenue *	37.1	28.6
Adjusted operating profit **	2.4	1.9
Operating margin	6.4%	6.5%

\* Before elimination of inter-segmental revenues of £0.1m (2007:£0.4m).

\*\* Before amortisation of intangible assets of £0.5m (2007: £0.3m).

Community Care maintained its excellent growth record with revenue up by 30% and adjusted operating profit up by 28%. Organic revenue growth was 11% with the balance coming from acquisitions made in the previous year.

A significant new homecare contract was won in Hertfordshire for 3,000 hours per week, and the previously announced contract with the London Borough of Harrow is gradually building towards its full expected volume of 5,000 hours per week. New and renewed contracts have been awarded in Cheshire and Surrey. Balancing these awards, a contract for approximately 1,200 hours per week was not retained in Stockton-on-Tees and, in Essex, the operational challenge of resourcing increased volumes has resulted in temporary excess costs and margin reduction.

Badminton Healthcare, based in South Gloucestershire, was acquired in February 2008. It currently provides around 1,500 hours per week of homecare, mainly under Local Authority contracts, and represents a good step in improving the group's position in the south-west of England.

At 31 March 2008, the weekly total of hours of care provided amounted to over 119,000 compared with 115,000 at the start of the financial year, an increase of 3.5%.

We continue to engage very positively with Local Authorities regarding both the development of outcome-based services and the policy direction of giving service users greater control over the delivery of their care through individualised budgets. Care UK has a good track record of success in Local Authority block contract procurement and our market leading focus on service development should ensure that we continue to thrive as the market gradually makes the transition towards more flexible and consumer focussed service provision.

Local Authorities and Primary Care Trusts continue to favour community and home based care over residential and hospital alternatives and so this area remains of key strategic importance to Care UK. To help maintain our outstanding record of success in this market, we have further enhanced our management resources in this division. Whilst this will have some margin impact in the second half of this financial year, we expect to benefit materially from this investment during the coming years.

### Specialist Care

	2008	2007
	£m	£m
Six months ended 31 March		
Revenue	30.0	28.9
Operating profit	3.2	2.9
Operating margin	10.7%	10.2%

Specialist Care has delivered overall growth of 4% and 9% in revenue and operating profit respectively, with a consequential improvement in operating margin. All of this growth was organic, reflecting a solid operational performance across the division.

The mental health business achieved revenue growth of 6%, and an increased operating margin, through some improvement in occupancy levels, largely in the eating disorders business following the service re-configuration undertaken during 2007. We have also reviewed the existing portfolio of homes and concluded that a small number are no longer able to provide an acceptable return to the group. These few homes are expected to be closed over the next twelve months, in consultation with local commissioners. We continue to look at other types of service development in mental health that will meet customers' changing needs with a strong focus on community provision.

# Operations and finance review continued

## Review of operations continued

### Specialist Care continued

In learning disabilities, a new contract has recently been awarded in Scotland and is expected to commence in the second half. Growth in the first half was more muted following the good growth experienced in 2007 and the operating margin in this business reflected occupancy build for a new home in Surrey. We continue to seek opportunities both to grow and to broaden our service offering in this attractive business area.

In children's services we have seen revenue growth of 4%, following very strong growth achieved in 2007. The operating margin in this business has shown a significant improvement over the comparable period in the previous year because of the service reorganisation completed in 2007. We are continuing to develop an innovative range of crisis intervention, residential and specialist foster care services with some encouragement from a new five-year residential care contract having been awarded in Shropshire. However, this market remains challenging with funding pressures driving a cautious growth outlook.

We continue to focus on the strategic options within Specialist Care. We have good market positions in mental health independent hospital specialist provision and learning disabilities supported living services and an excellent children's care service offering. The management team is focussed on further improvement of operational performance whilst reviewing opportunities to focus growth into fewer, larger service areas.

## Health Care

	2008	2007
Six months ended 31 March	£m	£m
Revenue	50.7	15.7
Adjusted operating profit *	4.2	0.7
Operating margin	8.2%	4.5%

\* Before amortisation of intangible assets of £1.9m (2007: £nil), impairment charges of £15.9m (2007: £nil) and joint venture net financing costs and taxation of £1.4m (2007: £1.3m).

The Health Care business has shown a commendable improvement in financial performance compared with the first half of 2007, notwithstanding the DoH's voluntary termination of the West Midlands diagnostics contract in November 2007. This improvement has mainly come from the contribution of Mercury Health, acquired in April 2007. The diagnostics business contributed revenue of approximately £9.1m in the first half with a small adjusted operating profit recorded. Approximately 30% of the total revenue reported within Health Care in the period is derived from the group's 50% share of PHG and around 10% from the group's original primary care business.

Performance across the current range of primary care services has been good. The GP practices, out of hours and walk-in services have all seen increasing patient numbers. The services to prisons have also performed well and performance at the Urgent Care Centre in Luton & Bedfordshire has stabilised and is providing an excellent service for patients and the commissioning PCT. The primary care business has been awarded a number of small contracts during the period including multi-specialty outpatient Clinical Assessment and Treatment Support ("CATS") services in north Manchester and Barking & Dagenham, local diagnostics services in Rotherham and a new five-year contracted GP service under the 'Fairness in Primary Care' initiative in Charlestown in Greater Manchester. We are also pleased to have been awarded a three-year contract for prison health services for HMP Brixton, which is planned to commence in June 2008.

# partnering



## Review of operations continued

### Health Care continued

The performance of the GC8 Wave 1 ISTC contract acquired with Mercury Health, has generally been good during the period and in line with our expectations at the time of its acquisition. In particular the centre in Portsmouth has performed extremely well, and the fifth centre under this contract, a diagnostics centre in Havant, was opened as planned in January 2008. During the period we have continued to devote considerable resource to improving performance at the Sussex Orthopaedic Treatment Centre in Haywards Heath and whilst we have seen notable improvement in recent months, we are focussed on normalising the high patient waiting list inherited with Mercury Health and on enhancing the service to achieve the NHS 18-week referral-to-treatment target.

We are also seeking to expand and enhance the services provided in each centre across the division so that they become ever more important contributors to the local health economies.

During the period PHG has continued to perform very strongly both clinically and financially. The PHG centres have participated in a pilot exercise comparing patient experiences in ISTCs with the top 20% of NHS hospitals. In the most recent comparison the centres out-performed this group of NHS hospitals on every one of over 20 measures.

On 9 April 2008 the DoH announced that a number of Wave 2 ISTC contracts had been approved to proceed to financial close and that certain others were continuing and had been transferred to local ownership. The first group of projects included Care UK's two Manchester CATS contracts, which have now been amalgamated into one contract, and the Southampton centre under PHG's Hampshire/Isle of Wight contract. The second group of projects included Care UK's Essex Electives project. Since 9 April we have continued to work with the DoH in order to reach financial close on the CATS and Southampton projects and we are hopeful that this can be achieved shortly. Progress continues to be made with the local sponsors for the Essex Electives project although significant further work on the proposed sites for this project will be required before a viable project can be achieved.

As outlined in the Financial Review, we have now also submitted claims for compensation to the DoH for abortive bid and development costs where the DoH has either withdrawn or substantially changed the Wave 2 ISTC contracts for which the group was appointed preferred bidder. We are in discussion with the DoH to agree the validation and payment of these claims.

The next phase of involvement of the independent sector in the provision of services to NHS patients is the provision of primary care services under the 'Equitable Access to Primary Medical Care Services' initiative. We are already actively engaged in bidding for a number of these projects and the group continues to be well positioned to be a leading provider in this market.

### Outlook

Care UK's strategy continues to be demonstrably well founded as the NHS and Local Authorities implement their plans to further utilise the independent sector to deliver services, to shift care from hospital environments to the community and to empower consumers to exercise choice and control.

The board believes that Care UK's strategy to address both the Health and Social Care markets is a significant market differentiator given the increasingly evident transition towards greater integration of care pathways across the traditional boundaries between the NHS and Social Services. We are confident that our chosen markets continue to offer good opportunities for delivering exceptional long-term value to shareholders.

### Mike Parish

Chief Executive

### Paul Humphreys

Finance Director

19 May 2008

# Risks and uncertainties

This section sets out the principal risks and uncertainties that affect our business for the remaining six months of the financial year. The principal long-term risks and uncertainties that the group faces are considered on page 24 of the group's 2007 annual report. These principal risks and uncertainties have not changed. The following risks have either changed or arisen since publication of the 2007 annual report, or affect the second half of the financial year to a proportionately greater degree than the first half.

**The group's customer base largely comprises public sector bodies such as Local Authorities, Primary Care Trusts and other NHS Trusts. In common with the majority of government-funded service providers almost all of the group's price increases take effect annually on 1 April.**

More than 95% of the group's revenue is derived from publicly funded bodies. Such bodies are often subject to substantial funding pressures and the agreement of annual price increases, which largely take effect on 1 April, can take some months where there is no defined contractual provision setting out the basis of any uplift. Should the group not be able to agree the expected level of revenue increases this could have an effect on the second half of the financial year. The group currently has no reason to believe that the overall outcome on revenue increases in 2008 will be materially different to our expectations or to prior years.

# succeeding



**The group is currently pursuing claims for compensation in relation to the terminated West Midlands diagnostics contract and in relation to wasted or excess bid costs incurred on Wave 2 ISTC projects.**

As set out in the Operations and finance review the group has submitted claims to the Department of Health for compensation in relation both to the terminated West Midlands diagnostics contract and certain Wave 2 ISTC projects where abortive or excess costs have been incurred. The group is currently carrying amounts on the consolidated balance sheet that it believes will be recovered by way of such compensation claims. Should the group be unsuccessful in obtaining the level of payment that it is currently expecting it would be necessary for any shortfall to be recognised in the group's income statement.

**The group is currently negotiating certain major contracts, particularly under the Department of Health's Wave 2 ISTC procurement initiative, which, if financially closed, will require capital expenditure and will require complex implementation plans to be delivered to challenging timescales.**

The group, including our 50% owned joint venture, Partnership Health Group, is currently seeking to reach financial close on three Wave 2 ISTC projects – Manchester CATS and Essex Electives (both Care UK) and Hampshire/Isle of Wight (PHG). Once financial close is reached the construction, mobilisation and implementation phases of these projects will commence, which will require significant capital expenditure to be committed by the group. The implementation plans for these projects are demanding, often requiring new services to be delivered in new ways. Should the capital investment required for any of these projects overrun the group does not have any contractual right to recover such overspend; should the implementation timescales not be achieved the group could face revenue deductions or other financial penalties as a result and would also have a shorter contract period. The group believes that it has sufficient resource and expertise to deliver all of these projects in accordance with its' contractual obligations.

**The group uses debt financing as a significant proportion of its overall funding strategy. The current 'credit crunch' has inevitably resulted in both the availability and pricing of credit becoming more challenging.**

The group's principal debt financing is provided by way of a syndicated facility, currently amounting to £223.0m. This facility has an expiry date in February 2015. At 31 March 2008 this facility had headroom of £52.1m and, in addition, the group held cash of £28.4m resulting in overall funding headroom of £83.5m. This level of headroom is considered to be sufficient to fund the group's immediate growth and development programme. However, given current market conditions, the group believes that, should it be necessary for additional financing to be raised or for any of the principal facility terms and conditions to be re-negotiated, the pricing of this syndicated facility would be likely to increase. As discussed in the Operations and finance review the group is currently assessing a property-based funding transaction. This transaction could have an impact on the pro-rata cost of borrowing although it would also be expected to raise significant proceeds for the group's future use.

# Responsibility statement

in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with 'IAS 34 – Interim Financial Reporting' as adopted by the EU;
- the interim management report includes a fair review of the information required by Disclosure and Transparency Rules ("DTR") 4.2.7R (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

**Mike Parish**

Chief Executive

**Paul Humphreys**

Finance Director

19 May 2008

# Condensed consolidated income statement (unaudited)

for the six months ended 31 March 2008

	Six months to 31 March 2008					
	Notes	Group – excluding Diagnostics contract termination £m	Diagnostics contract termination – Note 5 £m	Total £m	Six months to 31 March 2007 Total £m	Year to 30 September 2007 Total £m
Revenue: group and share of joint venture		166.7	—	166.7	118.0	275.7
Less: share of joint venture		(15.2)	—	(15.2)	(11.7)	(27.2)
<b>Group revenue</b>		<b>151.5</b>	<b>—</b>	<b>151.5</b>	106.3	248.5
Cost of sales		(128.0)	—	(128.0)	(87.1)	(199.5)
<b>Gross profit</b>		<b>23.5</b>	<b>—</b>	<b>23.5</b>	19.2	49.0
Administrative expenses		(12.7)	(15.9)	(28.6)	(9.8)	(28.2)
Share of profit of joint venture		1.3	—	1.3	0.6	2.2
<b>Operating profit/(loss)</b>		<b>12.1</b>	<b>(15.9)</b>	<b>(3.8)</b>	10.0	23.0
Adjusted operating profit		15.9	—	15.9	11.6	30.4
Amortisation of intangible assets		(2.4)	—	(2.4)	(0.3)	(2.5)
Impairment of goodwill & intangible assets		—	(15.9)	(15.9)	—	—
Integration & restructuring costs		—	—	—	—	(2.1)
Joint venture net financing costs and taxation		(1.4)	—	(1.4)	(1.3)	(2.8)
<b>Operating profit/(loss)</b>		<b>12.1</b>	<b>(15.9)</b>	<b>(3.8)</b>	10.0	23.0
Financial income		1.1	—	1.1	0.5	1.6
Financial expenses		(6.9)	—	(6.9)	(3.7)	(10.1)
<b>Net financing costs</b>		<b>(5.8)</b>	<b>—</b>	<b>(5.8)</b>	(3.2)	(8.5)
<b>Profit/(loss) before taxation</b>		<b>6.3</b>	<b>(15.9)</b>	<b>(9.6)</b>	6.8	14.5
Taxation	7	(1.8)	0.6	(1.2)	(2.1)	(3.7)
<b>Profit/(loss) for the period</b>		<b>4.5</b>	<b>(15.3)</b>	<b>(10.8)</b>	4.7	10.8
<b>Attributable to:</b>						
Equity holders of the parent		4.5	(15.3)	(10.8)	4.7	10.8
<b>Earnings per share</b>						
Basic	8			(19.23)p	9.16p	20.27p
Diluted	8			(19.23)p	9.03p	20.04p

# Condensed consolidated statement of recognised income and expense (unaudited)

for the six months ended 31 March 2008

	Six months to 31 March 2008 £m	Six months to 31 March 2007 £m	Year to 30 September 2007 £m
Cash flow hedge reserve movement (net of deferred taxation):			
– group	(1.4)	1.7	1.1
– share of joint venture	(0.3)	—	0.2
Actuarial gains and losses on defined benefit pension plan (net of deferred taxation)	—	—	0.7
Tax on equity-settled transactions taken directly to equity	—	—	(0.1)
Net (expense)/income recorded directly in equity	(1.7)	1.7	1.9
(Loss)/profit for the period	(10.8)	4.7	10.8
<b>Total recognised income and expense for the period</b>	<b>(12.5)</b>	<b>6.4</b>	<b>12.7</b>
<b>Attributable to:</b>			
Equity holders of the parent	(12.5)	6.4	12.7

# Condensed consolidated balance sheet (unaudited)

as at 31 March 2008

	Notes	31 March 2008 £m	31 March 2007 £m	Restated 30 September 2007 £m
<b>Assets</b>				
Property, plant and equipment	9	197.9	145.5	200.1
Intangible assets	10	77.5	41.5	94.4
Investment in joint venture		7.8	10.0	9.8
Financial assets – derivative financial instruments		0.4	1.7	2.0
<b>Total non-current assets</b>		<b>283.6</b>	198.7	306.3
Inventories		0.7	0.2	0.8
Trade and other receivables		51.3	23.9	34.6
Cash and cash equivalents	12	28.4	2.0	17.7
Properties classified as held for sale		0.4	—	0.4
<b>Total current assets</b>		<b>80.8</b>	26.1	53.5
<b>Total assets</b>		<b>364.4</b>	224.8	359.8
<b>Liabilities</b>				
Financial liabilities – borrowings	12	(9.2)	(3.9)	(8.7)
Financial liabilities – derivative financial instruments		(0.5)	—	—
Trade and other payables		(67.2)	(22.2)	(44.8)
Current tax liabilities		(2.6)	(2.2)	(2.5)
<b>Total current liabilities</b>		<b>(79.5)</b>	(28.3)	(56.0)
Financial liabilities – borrowings	12	(175.2)	(117.5)	(179.3)
Other non-current liabilities		(3.8)	(4.1)	(3.2)
Deferred tax liabilities		(12.3)	(6.3)	(13.7)
<b>Total non-current liabilities</b>		<b>(191.3)</b>	(127.9)	(196.2)
<b>Total liabilities</b>		<b>(270.8)</b>	(156.2)	(252.2)
<b>Net assets</b>		<b>93.6</b>	68.6	107.6
<b>Equity</b>				
Issued share capital		5.7	5.2	5.7
Share premium		40.2	7.4	40.1
Hedging reserve		(0.4)	1.7	1.3
Retained earnings		48.1	54.3	60.5
<b>Total equity attributable to equity holders of the parent</b>	13	<b>93.6</b>	68.6	107.6

# Condensed consolidated cash flow statement (unaudited)

for the six months ended 31 March 2008

	Note	Six months to 31 March 2008 £m	Six months to 31 March 2007 £m	Year to 30 September 2007 £m
<b>Cash inflow from operating activities</b>				
(Loss)/profit for the period		(10.8)	4.7	10.8
Depreciation		7.4	3.2	9.6
Amortisation		2.4	0.3	2.5
Impairment of goodwill & intangible assets		15.9	—	—
Profit on disposal of property, plant and equipment		(0.2)	—	(0.2)
Decrease/(increase) in inventory		0.1	—	(0.4)
(Increase)/decrease in trade and other receivables		(16.5)	3.2	(1.3)
Increase/(decrease) in trade and other payables		22.6	(2.7)	0.9
Equity-settled share-based payments		0.4	0.3	0.6
Share of profit of joint venture		(1.3)	(0.6)	(2.2)
Financial income		(1.1)	(0.5)	(1.6)
Financial expense		6.9	3.7	10.1
Tax expense		1.2	2.1	3.7
<b>Cash inflow from operating activities</b>		<b>27.0</b>	13.7	32.5
Income taxes paid		(2.2)	(2.3)	(4.7)
<b>Net cash from operating activities</b>		<b>24.8</b>	11.4	27.8
<b>Cash flows from investing activities</b>				
Payments to acquire property, plant and equipment		(6.2)	(7.2)	(17.1)
Proceeds from sales of property, plant and equipment		1.6	—	0.7
Interest received		1.0	0.5	1.6
Repayments from/(loans to) joint venture		3.0	(1.4)	0.6
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)		(1.2)	(2.8)	(26.2)
<b>Net cash from investing activities</b>		<b>(1.8)</b>	(10.9)	(40.4)
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital		0.1	—	3.1
Repurchase of own shares		(0.4)	—	—
Proceeds from new secured loans		—	4.7	42.0
Repayments of amounts borrowed		(3.6)	(1.0)	(4.0)
Interest paid		(6.7)	(3.4)	(9.7)
Payment of capital element of finance lease payments		(0.1)	—	(0.1)
Dividends paid		(1.6)	(1.3)	(2.0)
<b>Net cash from financing activities</b>		<b>(12.3)</b>	(1.0)	29.3
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10.7</b>	(0.5)	16.7
Cash and cash equivalents brought forward		17.7	1.0	1.0
<b>Cash and cash equivalents carried forward</b>	12	<b>28.4</b>	0.5	17.7

# Notes

## 1. Reporting entity

Care UK Plc (the “company”) is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the company for the six months ended 31 March 2008 comprise the company and its subsidiaries (together referred to as the “group”) and the group’s interest in its joint venture undertaking.

## 2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with ‘International Accounting Standard (IAS) 34 – Interim Financial Reporting’ as adopted by the EU (‘adopted IAS 34’). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group for the year ended 30 September 2007 which were prepared in accordance with International Financial Reporting Standards as adopted by the EU (‘adopted IFRS’).

## 3. General information

Comparative annual figures for the year ended 30 September 2007 set out within this report have been extracted from the 2007 annual report (published by the group on 21 December 2007), as adjusted for the finalisation of the fair value adjustments on the acquisition of Mercury Health – refer to note 11b). Statutory consolidated financial statements for the group for the year ended 30 September 2007, prepared in accordance with adopted IFRS, on which KPMG Audit Plc gave an unqualified opinion, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies. This half-yearly report, for the six months ended 31 March 2008, does not constitute statutory financial statements as defined in Section 240 of the Companies Act 1985.

This report is accessible on our website [www.careuk.com](http://www.careuk.com) together with all other financial reports and presentations, recent press releases and details about the company and its operations. Copies of the report are being sent to shareholders who have elected to receive a copy by post. Further printed copies of this report may be obtained from the company’s registered office, Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex CO4 9QB or by e-mailing a request to [investorrelations@careuk.com](mailto:investorrelations@careuk.com).

## 4. Accounting policies

The preparation of financial statements in conformity with adopted IAS 34 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.

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 board believe that the ‘adjusted’ operating profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how business performance is monitored internally. Adjusted operating profit is not a recognised profit measure under IFRS and may not be directly comparable with ‘adjusted’ profit measures used by other companies.

Except as described below, the same accounting policies and methods of computation are followed in these condensed financial statements as were applied in the group’s 2007 annual report:

### a) Changes in accounting policy

‘IFRS 7 – Financial Instrument: Disclosures’ and ‘IAS 1 (Amendment) – Presentation of Financial Statements’ are mandatory for the group from 1 October 2007. As this half-yearly report contains only condensed interim financial statements, and as there are no material financial instrument related transactions in the six months, full IFRS 7 disclosures are not required at this stage. The full IFRS 7 disclosures and capital disclosures required by the amendment to IAS 1 will be given in the 2008 annual report.

‘IFRIC Interpretation 10: Interim Financial Reporting and Impairment’ prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost and is mandatory for the group from 1 October 2007. The adoption of IFRIC 10 is not expected to have an impact on the group’s annual 2008 financial statements.

‘IFRIC Interpretation 11: IFRS 2 – Group and Treasury Transactions’ requires a share-based payment arrangement in which an entity received goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transactions, regardless of how the equity instruments are obtained and is mandatory for the group from 1 October 2007. IFRIC 11 has not had an impact on these condensed interim financial statements and no impact is expected for the group’s annual 2008 financial statements.

#### 4. Accounting policies continued

##### b) Accounting policies specific to interim financial statements

**Taxation:** The income tax expense to be recognised in each interim period is based on the best estimate of the weighted average annual income tax rate expected for the full year applied to the pre-tax income of the interim period. The expected tax rate takes into account changes in tax rates that are enacted, or substantively enacted, that are expected to take effect later in the year. The income tax expense for the interim period comprises both current tax and deferred tax. Anticipated tax benefits from tax credits generally are reflected in computing the estimated annual effective tax rate when the credits are granted and calculated on an annual basis. However, if the credit relates to a one-off event, then they are recognised in the interim period in which the event occurs.

**Defined benefit plans:** As permitted by adopted IAS 34, an interim actuarial valuation has not been obtained as at the half-year balance sheet date. For interim reporting purposes, reliable measurement has been obtained by extrapolation from the latest actuarial valuations.

#### 5. Diagnostics contract termination

The Operations and finance review contains a full discussion of the accounting treatment adopted in relation to the West Midlands diagnostics contract which was terminated by the Department of Health in November 2007.

In accordance with 'IAS 37 – Provisions, Contingent Liabilities and Contingent Assets', contingent liabilities have been recognised unless the possibility of settlement is remote. Additionally, in accordance with IAS 37, contingent assets reflecting the anticipated reimbursement of claims in negotiation have been recognised to the extent that they are virtually certain to result in economic inflows to the group. The directors, given the sensitive nature of the ongoing commercial negotiations, do not consider that it is in the group's interest to give additional disclosures at this time.

#### 6. 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.

##### Business segments

The group comprises the following main business segments:

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

# Notes continued

## 6. Segment reporting continued

### Business segments continued

	Residential Care £m	Community Care £m	Specialist Care £m	Health Care £m	Head Office/ Eliminations £m	Consolidated £m
<b>Six months to 31 March 2008</b>						
Total revenue – from external customers	49.0	37.0	30.0	50.7	—	<b>166.7</b>
Total revenue – from internal customers	—	0.1	—	—	(0.1)	<b>—</b>
Less: share of revenue of joint venture	—	—	—	(15.2)	—	<b>(15.2)</b>
Group revenue	49.0	37.1	30.0	35.5	(0.1)	<b>151.5</b>
Adjusted operating profit	7.9	2.4	3.2	4.2	(1.8)	<b>15.9</b>
Amortisation of intangible assets	—	(0.5)	—	(1.9)	—	<b>(2.4)</b>
Impairment of goodwill & intangible assets	—	—	—	(15.9)	—	<b>(15.9)</b>
Group share of joint venture net financing costs and taxation	—	—	—	(1.4)	—	<b>(1.4)</b>
Operating profit/(loss)	7.9	1.9	3.2	(15.0)	(1.8)	<b>(3.8)</b>
Net financing costs						<b>(5.8)</b>
Taxation						<b>(1.2)</b>
Loss for the period						<b>(10.8)</b>
Share of profit of joint venture	—	—	—	1.3	—	<b>1.3</b>
<b>Six months to 31 March 2007</b>						
Total revenue – from external customers	45.2	28.2	28.9	15.7	—	118.0
Total revenue – from internal customers	—	0.4	—	—	(0.4)	—
Less: share of revenue of joint venture	—	—	—	(11.7)	—	(11.7)
Group revenue	45.2	28.6	28.9	4.0	(0.4)	106.3
Adjusted operating profit	7.3	1.9	2.9	0.7	(1.2)	11.6
Amortisation of intangible assets	—	(0.3)	—	—	—	(0.3)
Group share of joint venture net financing costs and taxation	—	—	—	(1.3)	—	(1.3)
Operating profit/(loss)	7.3	1.6	2.9	(0.6)	(1.2)	10.0
Net financing costs						(3.2)
Taxation						(2.1)
Profit for the period						4.7
Share of profit of joint venture	—	—	—	0.6	—	0.6

## 6. Segment reporting continued

### Business segments continued

Year to 30 September 2007	Residential Care £m	Community Care £m	Specialist Care £m	Health Care £m	Head Office/ Eliminations £m	Consolidated £m
Total revenue – from external customers	93.8	63.1	58.7	60.1	—	275.7
Total revenue – from internal customers	—	0.6	—	—	(0.6)	—
Less: share of revenue of joint venture	—	—	—	(27.2)	—	(27.2)
Group revenue	93.8	63.7	58.7	32.9	(0.6)	248.5
Adjusted operating profit	16.4	5.3	6.5	5.2	(3.0)	30.4
Integration & restructuring costs	—	—	—	—	(2.1)	(2.1)
Amortisation of intangible assets	—	(0.7)	—	(1.8)	—	(2.5)
Group share of joint venture net financing costs and taxation	—	—	—	(2.8)	—	(2.8)
Operating profit	16.4	4.6	6.5	0.6	(5.1)	23.0
Net financing costs						(8.5)
Taxation						(3.7)
Profit for the period						10.8
Share of profit of joint venture	—	—	—	2.2	—	2.2

## 7. Taxation

The table below sets out a reconciliation of the effective tax rate applying to adjusted profit before taxation:

	Six months to 31 March 2008		Six months to 31 March 2007		Year to 30 September 2007	
	(Loss)/ profit £m	Taxation £m	Profit £m	Taxation £m	Profit £m	Taxation £m
(Loss)/profit before group taxation	(9.6)	1.2	6.8	2.1	14.5	3.7
Joint venture taxation	0.7	0.7	0.4	0.4	1.0	1.0
(Loss)/profit before group and joint venture taxation	(8.9)	1.9	7.2	2.5	15.5	4.7
Amortisation of intangible assets	2.4	0.7	0.3	—	2.5	0.8
Impairment of goodwill & intangible assets	15.9	0.6	—	—	—	—
Integration & restructuring costs	—	—	—	—	2.1	0.6
Non-recurring deferred tax credit from change in statutory tax rate	—	—	—	—	—	0.4
Adjusted profit before taxation (group and share of joint venture)	9.4	3.2	7.5	2.5	20.1	6.5
Effective tax rate on adjusted profit before taxation		33.9%		33.2%		32.1%

### Change in corporate tax rate

The Finance Act 2007 implemented a reduction in the UK rate of corporation tax rate from 30% to 28% with effect from 1 April 2008. Consequently, current tax for the period has been calculated on the best estimate of the weighted average annual tax rate expected for the full year applied to the relevant profit before taxation for the interim period. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%.

# Notes continued

## 8. Earnings per share

	Six months to 31 March 2008	Six months to 31 March 2007	Year to 30 September 2007
Basic EPS	<b>(19.23)p</b>	9.16p	20.27p
Diluted EPS	<b>(19.23)p<sup>1</sup></b>	9.03p	20.04p
<b>Additional disclosures:</b>			
Adjusted basic EPS	<b>10.99p</b>	9.80p	26.26p
Adjusted diluted EPS	<b>10.99p<sup>1</sup></b>	9.66p	25.97p

1. In accordance with 'IAS 33 – Earnings Per Share', potential ordinary shares have not been included in the March 2008 diluted EPS and adjusted diluted EPS calculations. Potential ordinary shares are only treated as dilutive when they increase loss per share and additional disclosures are required to use the same denominator as the IAS 33 required disclosures.

### Profit attributable to ordinary shareholders

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

	Six months to 31 March 2008 £m	Six months to 31 March 2007 £m	Year to 30 September 2007 £m
(Loss)/profit attributable to shareholders	<b>(10.8)</b>	4.7	10.8
Adjustments:			
– amortisation of intangible assets (less attributable taxation)	<b>1.7</b>	0.3	1.7
– impairment of goodwill & intangible assets (less attributable taxation)	<b>15.3</b>	—	—
– integration & restructuring costs (less attributable taxation)	—	—	1.5
Adjusted profit attributable to shareholders	<b>6.2</b>	5.0	14.0

### 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 adjusted basic and diluted EPS use the same weighted average number of ordinary shares as the basic and diluted EPS.

	Six months to 31 March 2008	Six months to 31 March 2007	Year to 30 September 2007
<b>In thousands of shares</b>			
Weighted average number of shares in issue	<b>56,344</b>	50,992	53,343
Adjustment: dilutive effect of shares and share options	—	766	612
Weighted average number of shares for calculating diluted earnings per share	<b>56,344</b>	51,758	53,955

820,605 anti-dilutive shares were not included in the above earnings per share calculation (March 2007: nil, September 2007: 81,044).

## 9. Property, plant and equipment

	Note	31 March 2008 £m	31 March 2007 £m	Restated 30 September 2007 £m
Opening net book value		200.1	141.5	141.5
Acquisitions	11	—	—	50.9
Additions		6.6	7.2	17.8
Disposals and transfers to current assets		(1.4)	—	(0.5)
Depreciation		(7.4)	(3.2)	(9.6)
<b>Closing net book value</b>		<b>197.9</b>	145.5	200.1

## 10. Intangible assets

	Note	31 March 2008 £m	31 March 2007 £m	Restated 30 September 2007 £m
Opening net book value		94.4	38.8	38.8
Acquisitions	11	1.4	2.9	59.7
Adjustment made in respect of acquisitions made in prior periods		—	0.1	(1.6)
Amortisation and impairment charges		(18.3)	(0.3)	(2.5)
<b>Closing net book value</b>		<b>77.5</b>	41.5	94.4

Intangible assets comprise goodwill and other intangible assets that primarily relate to ongoing customer relationships and customer contracts recognised upon acquisition.

## 11. Acquisitions

### a) Six months ended 31 March 2008

On 29 February 2008 Care UK Homecare Limited acquired 100% of the issued share capital of Badminton Healthcare Limited, a homecare services provider.

This purchase has been treated as an acquisition. The net assets acquired were £0.1m, fair value adjustments (being the recognition of customer relationships and contracts as intangible assets net of deferred taxation) totalled £0.3m, which resulted in £1.0m recognised as goodwill. Total acquisition consideration was £1.4m and was satisfied by £1.2m cash paid on acquisition and £0.2m contingent consideration.

### b) Mercury Health: finalisation of fair values

The fair values related to the Mercury Health acquisition on 20 April 2007 were provisional due to the complexity of the original transaction. The fair values have now been finalised and the following adjustments have been made:

- fixed assets of £2.4m have been written off to give a revised fair value of £50.7m;
- accruals, primarily relating to excess operating costs arising from the normalisation of patient waiting lists, were increased by £1.8m to £20.8m;
- the deferred tax provision was reduced by £1.2m in relation to the above revisions; and
- goodwill increased by £3.0m as a consequence of the above adjustments.

# Notes continued

## 11. Acquisitions continued

### c) Year ended 30 September 2007 and six months ended 31 March 2007

The acquisitions for the comparative periods are disclosed in the annual report for the year ended 30 September 2007. Copies of the annual report are available from the addresses set out in note 3.

### d) Other disclosures

#### Intangible assets

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.

#### Proforma income statement extracts

Owing to the size and timing of the acquisition completed during the period, the net profit (after attributable financial expenses and taxation) since the date of acquisition is not material. Similarly if the acquisition had occurred at the start of the financial year in which it was acquired, the group revenue and net profit would not have been materially different.

## 12. Net debt

	Cash in hand at bank £m	Overdrafts £m	Cash and cash equivalents £m	Borrowings due within one year £m	Borrowings due after one year £m	Net debt £m
At 1 October 2006	1.8	(0.8)	1.0	(2.0)	(114.3)	(115.3)
Cash flow	(0.6)	(0.7)	(1.3)	1.0	(4.7)	(5.0)
Other non-cash changes	—	—	—	(1.4)	1.5	0.1
Acquisitions	0.8	—	0.8	—	—	0.8
At 31 March 2007	2.0	(1.5)	0.5	(2.4)	(117.5)	(119.4)
Cash flow	(1.3)	1.5	0.2	3.1	(37.3)	(34.0)
Other non-cash changes	—	—	—	(9.4)	8.0	(1.4)
Acquisitions	17.0	—	17.0	—	(32.5)	(15.5)
At 30 September 2007	17.7	—	17.7	(8.7)	(179.3)	(170.3)
Cash flow	10.7	—	10.7	3.7	—	14.4
Other non-cash changes	—	—	—	(4.2)	4.1	(0.1)
<b>At 31 March 2008</b>	<b>28.4</b>	<b>—</b>	<b>28.4</b>	<b>(9.2)</b>	<b>(175.2)</b>	<b>(156.0)</b>

### 13. Capital and reserves movements

	<b>31 March 2008 £m</b>	31 March 2007 £m	30 September 2007 £m
Opening equity attributable to equity holders of the parent	<b>107.6</b>	63.0	63.0
Issue of shares (net of issuing costs)	<b>0.1</b>	—	33.3
Purchase of own shares	<b>(0.4)</b>	—	—
(Loss)/profit for the period	<b>(10.8)</b>	4.7	10.8
Movement in cash flow hedge reserve (net of deferred taxation)	<b>(1.7)</b>	1.7	1.3
Credit in relation to equity-settled share-based payments (net of deferred taxation)	<b>0.4</b>	0.5	0.5
Credit in relation to defined benefit pension scheme (net of deferred taxation)	<b>—</b>	—	0.7
Dividends	<b>(1.6)</b>	(1.3)	(2.0)
<b>Closing equity attributable to equity holders of the parent</b>	<b>93.6</b>	68.6	107.6

### 14. Dividends

	<b>Six months to 31 March 2008 £m</b>	Six months to 31 March 2007 £m	Year to 30 September 2007 £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 30 September 2007 of 2.80p (31 March 2007: 2.53p) per share	<b>1.6</b>	1.3	1.3
Interim dividend for the year ended 30 September 2007 of 1.22p per share			0.7
			<u>2.0</u>

	<b>Six months to 31 March 2008 £m</b>	Six months to 31 March 2007 £m	Year to 30 September 2007 £m
Proposed interim dividend for the year ended 30 September 2008 of 1.33p (31 March 2007: 1.22p) per share	<b>0.8</b>	0.7	
Proposed final dividend for the year ended 30 September 2007 of 2.80p per share			1.6

Proposed interim dividends were not included as a liability as at the balance sheet dates, in accordance with 'IAS 10 – Events After the Balance Sheet Date'.

# Notes continued

## 15. Share-based payments

In the current interim period, the group has granted 523,471 nil cost options, with a fair value of 388.0p under the Long Term Incentive Plan ("LTIP"). 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.

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

	Six months to 31 March 2008
Grant date	19 Dec 07
Share price at date of grant	388.0p
Exercise price	0.0p
Number of employees	11
Shares under option	523,471
Vesting period (years)	3.0
Expected volatility	22.03%
Option life (years)	3.0
Expected life (years)	3.0
Risk free rate	5.22%
Expected dividends expressed as a dividend yield	0.59%
Expectations of meeting performance criteria	100%
Fair value per option	388.0p

## 16. Financial instruments

In the current interim period, the group has entered into two additional interest rate swaps. The interest rate swaps have a combined nominal value of £30m, a weighted average contract rate of 4.973% and a weighted average remaining life of 6.9 years. Both interest rate swaps have been designated as hedges of the group's floating rate financial liabilities.

## **17. Pensions**

In the six months ended 31 March 2008, there have been no significant changes in the net liability of the group's two defined benefit pension plans that existed as at 30 September 2007. During the period ended 31 March 2008 the group obtained admission to the London Borough of Harrow Local Government Pension Scheme. A number of employees transferred to the group but continued to be members of this scheme. The admission agreement is on a closed basis and no further employees can be admitted to the scheme.

The group has entered into an agreement with the London Borough of Harrow ("Harrow") on a shared responsibility basis. Harrow has taken responsibility for any deficits which arise from experience being different to that assumed for longevity, pensions increases, demographic experience and changes in market conditions. The group has taken responsibility for early retirements which need employer consent, as well as for the consequences of ill health, pay above public sector awards, job evaluations and rank/honorarium positions. At the next triennial valuation a revised contribution rate will be set reflecting experience of the scheme.

## **18. Related party transactions**

The group has no material or unusual related party transactions during the period ended 31 March 2008. The nature of the various services provided to some of its subsidiaries and joint venture is similar to those for the year ended 30 September 2007.

The basis of remuneration of key management personnel remains consistent with that disclosed in the annual report for the year ended 30 September 2007.

## **19. Subsequent events**

### **Financial instruments**

On 28 April 2008, the group entered into three interest rate swaps with a total nominal value of £75m. The swaps have a duration of six months and become effective between 14 May 2008 and 23 June 2008. Under the terms of the swaps Care UK pays three month LIBOR but receives one month LIBOR plus a premium over the duration of the contracts.

# Independent review report

by KPMG Audit Plc to Care UK Plc

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2008 which comprises the Condensed consolidated income statement, Condensed consolidated statement of recognised income and expense, Condensed consolidated balance sheet, Condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with 'IAS 34 – Interim Financial Reporting' as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

## KPMG Audit Plc

Chartered Accountants

Ipswich

19 May 2008

# Directors



**John Nash**  
Non-executive Chairman, Chairman  
of the Nominations Committee



**Mike Parish**  
Chief Executive



**Paul Humphreys**  
Finance Director



**Fritz Ternofsky**  
Senior Independent Non-executive



**Miles Roberts**  
Non-executive, Chairman of the  
Audit Committee



**Michael Averill**  
Non-executive



**James Strachan**  
Non-executive, Chairman of the  
Remuneration Committee



**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](mailto:enquiries@careuk.com)

[www.careuk.com](http://www.careuk.com)