1969735

TC Group

Annual Report & Accounts 1996


carefirst


Focusing on the future

Focusing on the Future

VISION

To be the first choice of our customers by making a real difference to their lives

FOCUS

- Invest in our people
- Develop earlier and more enduring relationships with existing and potential customers
- Provide innovative, reliable and high quality services
- Develop and operate the leading health and care service brands
- Work in partnership with Public and Voluntary Sectors
- Transform 'Care Homes' into 'Care Centres'
- Drive out unnecessary costs
- Enhance shareholder value through growth in EPS and dividends

DISCIPLINE

- Anticipate change
- Make informed choices
- Perfect implementation
- Maximise efficiencies
- Measure and reward performance
- Improve profitability continuously

Chairman's Statement

"We are now actively developing services which broaden the range of high quality, affordable choice available to our customers and the merger has given this process significant impetus."

Results

Profit before tax, and exceptional costs amounting to £1.5 million, for the year ended 31st December 1996, was £18.5 million. Earnings per share before exceptional items, and an exceptional deferred tax charge of £15.3 million, was 8.8 pence. After all exceptional items the loss per share was 3.3 pence.

The exceptional costs relate to the merger with Court Cavendish and the cessation of the new build programme. Following the decision to curtail the new build programme, we decided to make full provision for deferred tax; as a result, we have provided £3.3 million in respect of deferred taxation for 1996 and £15.3 million, as an exceptional charge, for unprovided deferred taxation at 31st December 1995. Our policy on tax is the most prudent in the sector and takes full account of possible changes in future accounting standards.

Your Board proposes a final dividend of 2.45p per share making a total of 3.45p for the full year, an increase of 33%.

Strategy

In our interim statement, we announced a comprehensive strategic review in response to changing market conditions, which builds on our firm commitment to the Continuing Care sector and belief in its long-term potential. We will use our leading position in the sector as a springboard to substantially broaden our service base, facilitated where necessary by our strong balance sheet.

We have now ceased the new build programme, except where there is a long-term opportunity to work in partnership with Local or Health Authorities.

We are now actively developing services which broaden the range of high quality, affordable choice available to our customers and the merger with Court Cavendish has given this process significant impetus.

Merger

During the year, Takare plc merged with Court Cavendish Group PLC by means of an agreed offer, and changed its name to TC Group plc. This brought together two companies with complementary management skills and market expertise who share a similar vision of the future and commitment to the highest standards of service.

The merger has progressed satisfactorily, and already a great deal has been achieved. A number of initiatives are already in hand, involving areas as diverse as long-term health and social contracts, improved purchasing arrangements and advanced IT systems. The sum total is a much more broadly based and proactive group.

Branding and Change of Name

As you will see from the Chief Executive's Review we have concluded our branding exercise and will promote all of our care services in future under the name of Care First. It is logical that we should accordingly change the corporate name, and your Board is therefore proposing a resolution at the forthcoming AGM to change the name of the Company from TC Group plc to Care First Group plc.

Balance Sheet and Acquisition Strategy

The Group is well positioned from internal resources to make acquisitions which meet our strict criteria. Such acquisitions must offer a clear strategic fit and may involve the use of some of the increasing range of competitive funding options now available.

Repurchase of Shares

In line with current market practice your Board is seeking powers to buy back shares. Any decision to use these powers will be taken in the light of other investment opportunities and will only be used to demonstrably create shareholder value.

Market Conditions and Outlook

Conditions remain tough and we believe that whatever happens at the forthcoming General Election, there will be an ongoing commitment to secure value for money. We have no expectation that significant new resources will be forthcoming. Increasing levels of self-funding are to be welcomed but will take some time to materially impact.

Occupancy within the industry continues to remain under pressure. Public revenue and capital constraints will however create opportunities for well funded, high quality providers such as TC Group. On the supply side, virtually all major operators have now ceased or severely curtailed their new build programmes and this will help achieve equilibrium in the market place.

Notwithstanding these trends, we believe trading conditions will continue to remain difficult for the foreseeable future.

Board and Employees

Hamilton Anstead has today relinquished his position as Managing Director of the Group. This change in senior management forms part of a wider initiative to redirect resources to support the Group's care home portfolio and associated services. Hamilton has made a significant contribution to the Group's development and leaves with our thanks and best wishes for the future.

I am delighted to welcome the Court Cavendish Directors to your Board, the ensuing broader base of experience is proving invaluable in taking the Group forward.

We now have approximately 14,500 employees who share with us these difficult market conditions with professionalism and commitment, and I offer to them on your behalf our profound thanks.

Keith Bradshaw
Executive Chairman

21st March 1997

Financial Highlights

Turnover increased by 21.9% to £134.5 million

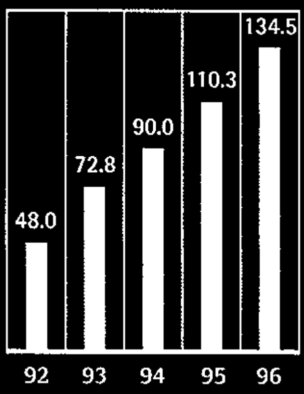
Profit before tax and exceptionals of £18.5 million

Earnings per share, before exceptionals, of 8.8 pence

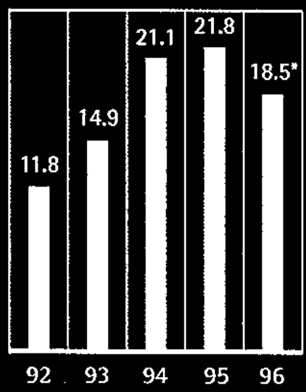
Dividend increased 32.7% to 3.45 pence

Gearing at year end of 41.9%

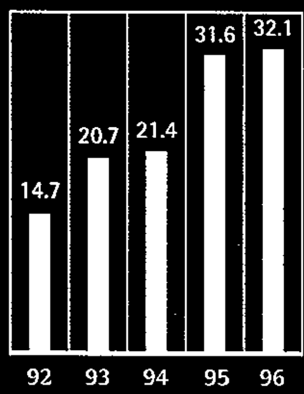
Turnover
£m



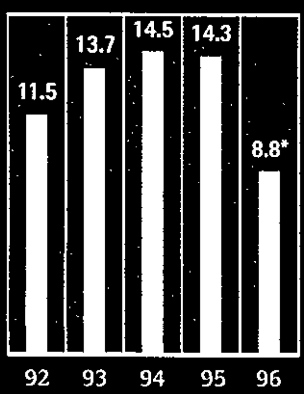
Profit before taxation
£m



Operating cash flow
£m

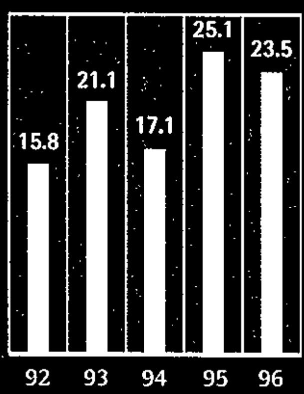


Earnings per share
(pence)

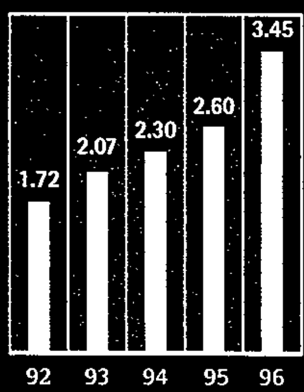


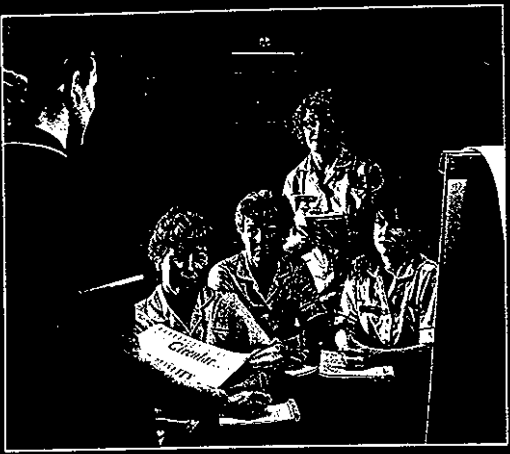
*Before exceptionals

Operating cash flow per share
(pence)



Dividends per share
(pence)





The Group

at a glance

Board of Directors

Keith Bradshaw FCA
Executive Chairman (age 54)

Qualified in Birmingham as a Chartered Accountant in 1966. From 1969 - 1976 worked in West Africa as Chief Executive of a diverse group of international companies.

Shortly after returning to the United Kingdom he formed BP Nursing Homes Limited, the predecessor to Takare. At the same time he founded a number of businesses covering a variety of activities and remains non-executive Chairman of three of these companies, including a multi-franchise motor distribution company and a manufacturer of sound reinforcement systems and associated equipment.

He is also Chairman of a medical research charity based in the West Midlands and a Trustee of the Continence Foundation.

Dr Chai Patel BM MRCP
Chief Executive (age 42)

Dr Chai Patel was the founder Chairman of Court Cavendish, and became Chief Executive of the TC Group on the merger with Takare. A member of the Royal College of Physicians, he has several years' clinical experience in the NHS. In 1985 he moved into investment banking with Merrill Lynch and subsequently Lehman Brothers. He is a member of the British Geriatrics Society and the British Society of Gerontology. He is also a Director of the Independent Healthcare Association, Deputy Chairman of the Continuing Care Conference and a Trustee of the Open University Foundation.

Ron Reid MA FCA
Finance Director (age 44)

After graduating from Cambridge University in 1974, he joined Price Waterhouse where he trained and qualified as a Chartered Accountant. Specialising in large company audits and investigations, he was admitted to the Price Waterhouse partnership in 1988. He joined Takare as Finance Director in 1992.

Anthony Heywood FCA
Corporate Development Director (age 48)

Tony Heywood as Corporate Development Director has responsibility for growing the range of services the Group offers, both through acquisition and organic growth. He is a Chartered Accountant having worked with Deloitte & Co. and British Leyland before joining Marley plc where he rose to Group Controller. In 1989 he was appointed Group Finance Director of The Berkeley Group plc. He joined Court Cavendish as Finance Director in 1992 and moved to his current role on the merger with Takare. He is also a Director and Trustee of Health Unlimited, a charity dedicated to developing primary healthcare in areas of conflict.

Keith Ackroyd
CBE FR PharmS
Non-executive Director (age 62)

Member of the Audit and Remuneration Committees. He was formerly Managing Director of the Retail Division of The Boots Company plc. He is currently Regional Chairman National Health Service Executive Trent, Chairman of Silentnight Holdings PLC, and a Director of Nottingham Group Plc.

Baroness Dean
Non-executive Director (age 53)

Member of the Audit and Remuneration Committees. She is Chairman of the Independent Committee for the Supervision of Telephone Information Standards (ICSTIS), Deputy Chairman of University College London Hospitals NHS Trust, and member of the Press Complaints Commission. She is also President of the College of Occupational Therapists and a member of the National Committee of Inquiry into the Future of Higher Education.

Anthony Good FIPR
Non-executive Director (age 63)

Member of the Audit and Remuneration Committees. He is a leading public relations advisor. After spending the early part of his career in public relations and marketing, he founded the Good Relations Group in 1961. Since 1989 he has been Executive Chairman of Good Consultancy and has been a Director of Court Cavendish since 1988, and of TC Group since the merger with Takare in 1996.

He holds a number of other non-executive directorships including Arcadian International plc and Taj International Hotels Ltd.

Ian Kirkpatrick Bsc MBA
Non-executive Director (age 52)

Chairman of the Audit Committee and member of the Remuneration Committee. Following a career in consultancy, stockbroking and commerce, he joined the Bank of Scotland in 1976 and subsequently became a Director in the banking division of its subsidiary, British Linen Bank. He is Chairman of Harvey Nash Group plc and Datrontech Group plc and is also a non-executive Director of a number of companies including Saracen Value Trust plc. He has been a Director of Court Cavendish since 1993 and of TC Group since the merger with Takare in 1996.

David Pegg LLB
Non-executive Director (age 59)

Chairman of the Remuneration Committee and member of the Audit Committee. He qualified as a solicitor in 1961, became a partner of his present firm in 1964 and senior partner in 1983. He is a former chairman of the Medical Service Committee for Hertfordshire and treasurer of the Hertfordshire Law Society.

Advisors

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Registrar's Department
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Trade and Industry Public Relations
Millbank Public Relations
33 Great Portland Street
London W1N 6EY

Management Board

The Group's strategy is implemented through the Management Board. The homes in turn are supported by multidisciplinary Regional teams.

Eric Woodhead
Company Secretary

Tony Heywood
Corporate Development Director

Ron Reid
Finance Director

Sushil Radia
Regional Managing Director

Dr Chai Patel
Chief Executive

Bob Maclean
Regional Managing Director

Jan Bird
Sharon Blackburn
Eileen Hindley
Regional Directors of care services

Phil McAuley
Marketing Director

Des Kelly
Human Resources Director

Group operating structure

Customer

Matron/Manager
Home team

Operations team
(Regional & Central)
Regional Managing Directors

New Business & Property team
Corporate Development Director

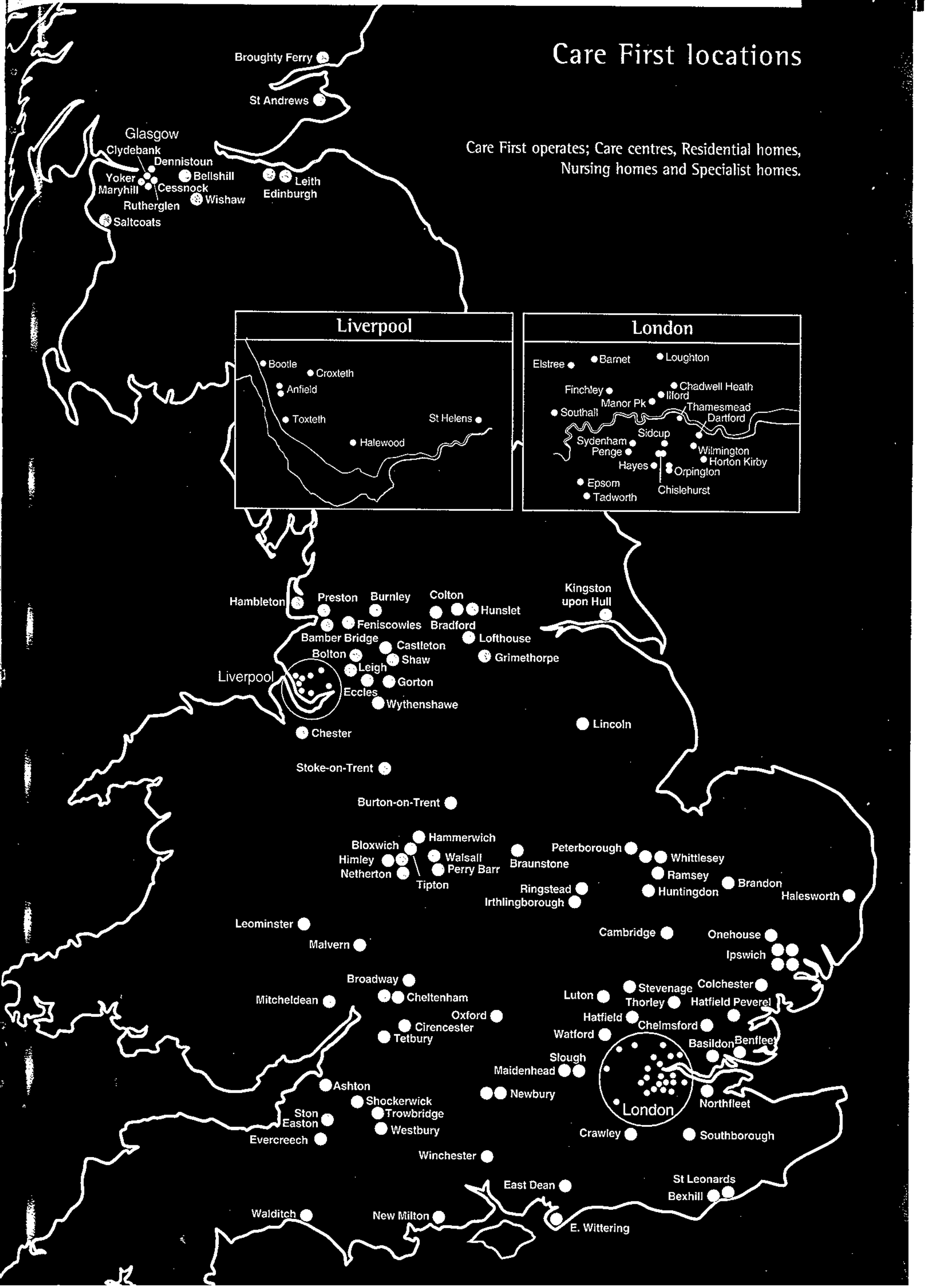
Admin & Finance team
Finance Director

Chief Executive

Executive Chairman
& Board of Directors

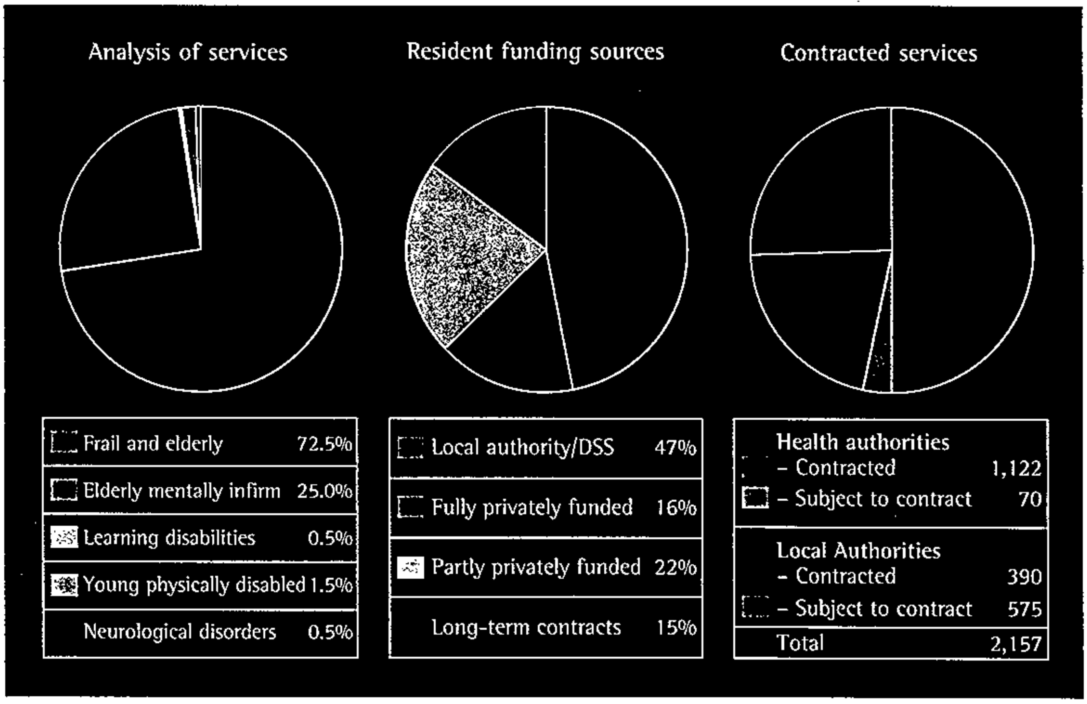
Care First locations

Care First operates; Care centres, Residential homes, Nursing homes and Specialist homes.

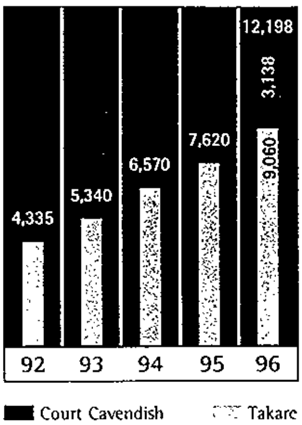


Combined Group statistics

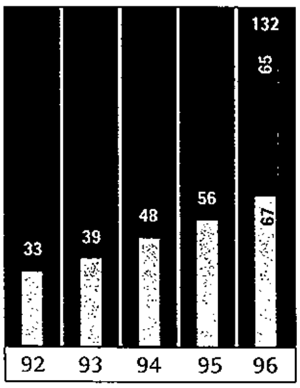
	Takare	Court Cavendish	TC Group
Current number of registered beds	9,060	3,138	12,198
Number of beds under development	240	115	355
Number of homes	67	65	132
Current average revenue per bed/week	£331	£331	£331
Current average fully private nursing rate/week	£357	£402	£374
Current average public nursing rate/week	£330	£330	£330
Current average private residential rate/week	N/A	£334	£334
Current average public residential rate/week	£247	£276	£270
Employees in combined group	11,000	3,500	14,500



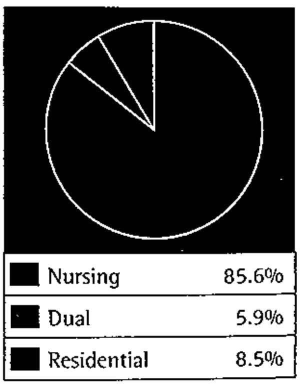
Number of beds



Number of homes



Analysis of registered beds



Chief Executive's Review

"The strategy for future growth and success of the Group is built around a clear vision of what we want to be, focus on what is achievable and the discipline to ensure it can be delivered."

INTRODUCTION

Change within health and social care continues at an extraordinary pace and simultaneously provides both opportunities and challenges. Underlying the changes are the ideological tensions of an evolving mixed economy with progressive reduction of State provision, heightened by increased customer expectations and constrained expenditure.

Continuing Care remains firmly on the national, regional and local political agendas. At over £15 billion it is still one of the largest areas of annual public expenditure and will continue to grow whether through the State or by increased self-provision. The distribution of provision will also change as Continuing Care policies for all age groups evolve and as all politicians seek greater value for money and higher quality.

TC Group is the largest independent provider of high quality Continuing Care services in the UK and is well placed to shape and participate in these important changes.

OPERATIONS

Funding constraints in respect of State supported provision continued to impact the sector as a whole. It is a measure of the Group's quality that its effect on our established facilities has been significantly less than our competitors. Year end occupancy in our established facilities (defined as those registered for eighteen months or more) was 91% (1995: 94%). From this year we will also be reporting overall occupancy for all constructed beds. This was 85% as at 31st December 1996. The average fee rate as at 31st December 1996 was £331 per week (1995: £325). The average wage inflation for the year was 2.6% and availability of registered nurses continued to be difficult.

We continue to make significant investment in our people through in-house and bought-in training and development programmes. Our Professional Development Centre, staffed by a team of six qualified tutors, educationalists and trainers provides statutory, NVQ, ENB registered and enrolled nurse conversion courses and a range of other essential training programmes. Through the year more than 2,500 staff participated in some form of structured learning experience.

GROWTH

Development

During the year we commissioned 9 facilities with 1,200 beds. Since the year end, we have commissioned a further 240 beds and we have a further 4 facilities with 355 beds under various stages of construction.

Merger

In September 1996 Takare plc announced its merger with Court Cavendish Group PLC which became unconditional in October 1996.

> "TC Group is the largest independent provider of high quality Continuing Care in the UK."

At the operational level, the merger of the two Groups has progressed well. The planned changes have been managed without disruption to our services. The operational synergies have been implemented with the closure of the Court Cavendish central office, removal of the area manager layer from Takare and a range of other cost-saving initiatives. The anticipated annualised savings from these changes will be in the order of £1 million. In addition, we have begun a number of other longer-term initiatives including local and more flexible pay structures within the previous Takare facilities and enhanced national purchasing for food, medical supplies and clinical waste.

In addition, the management teams have been strengthened in the important areas of Care Services, Human Resources, Marketing, Hotel Services and Leisure Services. An IT strategy has been developed and will be implemented in 1997. This will result in personal computers in all facilities linked to the central office through an ISDN network. Central IT has also been upgraded and a more powerful hardware and software platform established. Once fully operational, this capability will assist with the administration and finance function, reduce operational costs and also provide data bases for future service development, customer relationships and market developments.

The Section headed 'Group at a Glance' provides the key statistics. The Combined Group is the outright leader in continuing health and social care services in the UK and is unique in terms of being a leader in both Health Authority and Local Authority long-term contracted services. This provides us with a significant competitive advantage.

STRATEGIC POSITION

Customer satisfaction is our main goal. We will achieve this by investing in our people and being 'a big company that behaves like a small one', ie a company that is flexible, agile, people-centred, outcome orientated, professional and lively. A company where change is not only welcomed but initiated and anticipated and leadership is not the domain of a few all-knowing and all-powerful but each and every member of our 14,500-strong team, where interdependence, co-operation, responsiveness and mutual respect are the primary values.

'Focusing on the Future', the change programme developed to unite Takare and Court Cavendish, was established around these beliefs and includes the formation of a more 'fluid' management structure designed to empower and support. The strategy for future growth and success of the TC Group is built around a clear vision of what we want to be, focus on what is achievable and the discipline to ensure it can be delivered. This has been outlined at the beginning of this report and developed in the following sections. This involves, branding of our services, working in partnership with the public and voluntary services, transforming our 'Care Homes' into 'Care Centres' and expanding the range of our services and thereby developing earlier and more enduring relationships with our customers.

> **"Customer satisfaction is our main goal. We will achieve this by investing in our people."**

CURRENT TRADING

Occupancy is stable but was impacted by severe viral illness in January 1997. Occupancy in the established homes of the combined Group as at the end of Februrary 1997 was 88% and for all beds was 83%. The 3% decrease in occupancy in established homes since the year end is explained by a 1% reduction in occupied beds due to mortality rates and 2% is due to the dilutive effect of certain homes with sub normal occupancy becoming established. The decline in occupancy for all beds is principally due to the commissioning of 240 new beds since the year end. The rate of fill in non-established homes has not significantly changed since the year end.

Local Authority funding continues to be under pressure in many parts of the country. This has accelerated their plans for out-sourcing much of their in-house provision.

Dual registration of our homes is progressing to plan and is assisting with occupancy. The New Business Team has been successful with a number of competitive tenders for long-term contracts with both Local Authorities and Health Authorities. A number of homes have been targeted for re-positioning to the private market or for specialist provision. For the majority of our staff there will be no pay increase this year.

Chief Executive's Review

United and focused through branding carefirst

Fresh approach

When we merged we were certain of one thing – that we needed to have, and be seen to have, a fresh approach to how we presented ourselves to our customers and colleagues. In essence we needed a new brand that would unify, inspire and communicate our values and our vision.

So we began a programme to define our core values, to describe our customers' decision process and thus identify how branding could help us.

This analysis took us away from obvious property-based segmentations and from the egocentric, heavy-handed, corporate uniformity of conventional company branding.

Individual care

Instead, we established two principles, firstly that the 'Home is the Hero' and secondly that the fundamental offer we wish to make is to provide 'Individual care, wherever it's needed'.

These principles are reflected in the way our business runs, how it treats its customers and its staff and, of course, how it looks. This means that from the point of view of an individual choosing a home we look and feel local – yet highly competent. At the same time for our staff and for the social and healthcare professionals, those local strengths are augmented by a clearly described and consistent approach to social and healthcare both within our homes and throughout the care continuum.

New name

Going forward, all of the Group's continuing care services will trade under the unified brand name carefirst

As you will see from the accompanying illustrations of our new branding programme, we now have a new corporate name, a strapline to summarise our offer, a visual language that sympathetically unifies everything we build, say or do, all embodied in a distinctive, sensitive and compelling new identity.

Finally we recognise that a new image alone is not enough to create a fresh start for a newly unified business. Instead these designs and the values they embody are just one element of a company-wide change programme that is blending the best practices of the two merging businesses.

individual care wherever it's needed

carefirst

An experienced, reliable and high quality partner

Steve Lynch, Finance Director of Ealing, Hammersmith and Hounslow Health Authority having a regular contract meeting with Lorna Pashley, Matron, Manor Court Nursing Home.

Company lands care contract

BROMLEY Council has entered into a new five-year contract with Court Cavendishto provide residential care for elderley people in six homes. The new service will include higher staffing ratios and a specialist respite hotel facility is being developed. Court Cavendish is one of the largest care providers in the country and previously managed three of the homes. The contract was signed by Councillor Charles Priest, Mayor of Bromley and Dr Chai Patel of Court Cavendish. Also pictured at the official contract signing was Trevor Clements, principle solicitor for the council, and Tony Heywood, from Court Cavendish.

Cavendish secures £20 million deal for [s]idential homes

Quality

Court Cavendish successfully extends and expands its partnership with the London Borough of Bromley.

Chief Executive's Review

Working in partnership with the public and voluntary sectors

Track Record and Experience

TC Group is the sector leader and has an established track record of developing long-term relationships and working in partnership with Local Authorities, Health Authorities and NHS Trusts. This experience and our culture means that the purchasing and commissioning authorities can rely on our quality and ability to develop unique and tailor-made solutions for them.

Contract Beds	Established	Preferred Provider (subject to contract)	Total
HA/Trusts	1,122	70	1,192
LA	390	575	965
Total	1,512	645	2,157

In addition the Group provides meals for home delivery, operates day centres and respite care services.

New Business Team

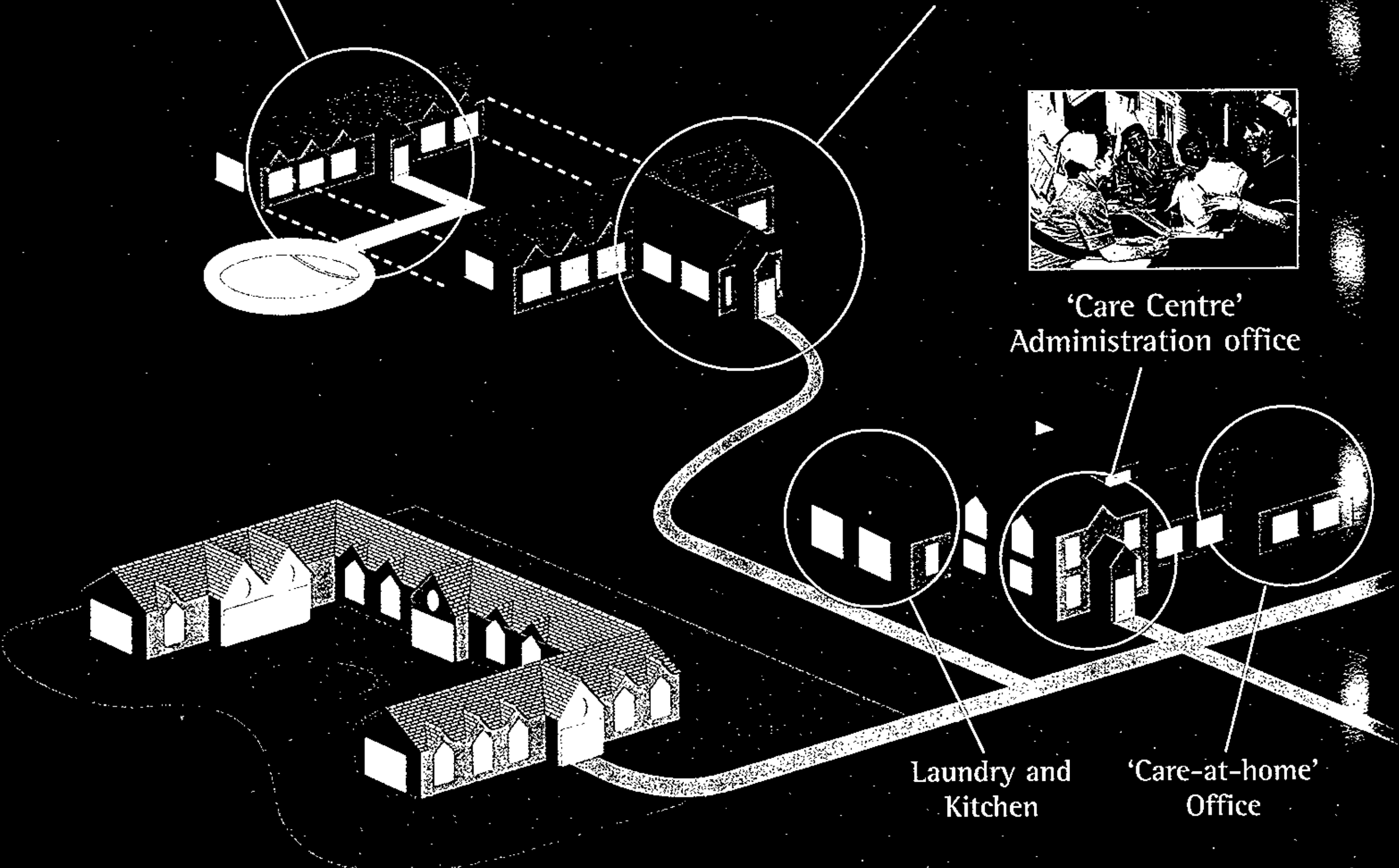
Our dedicated and experienced New Business Team has a blend of professionals who have worked within the public as well as the private sectors. They work closely with our Matrons/Home Managers as well as our Regional Care Development Teams to ensure that we are constantly kept aware of the needs of our commissioning partners and that we are able to respond to them effectively.

Greater opportunities

Irrespective of the outcome of the forthcoming elections, Local Authorities will wish to deliver core services at lower costs and seek partnership arrangements with the independent sector to finance the much needed capital expenditure necessary to upgrade present facilities. The TC Group's recent success in being chosen for the transfer of Bedfordshire Social Services homes for elderly people is an excellent example of our ability to meet these twin objectives and add value by improving the quality of services as well.

People with learning disability receiving specialist support in small group living environments.

Ensuring that young people with physical disability enjoy the greatest possible independence.

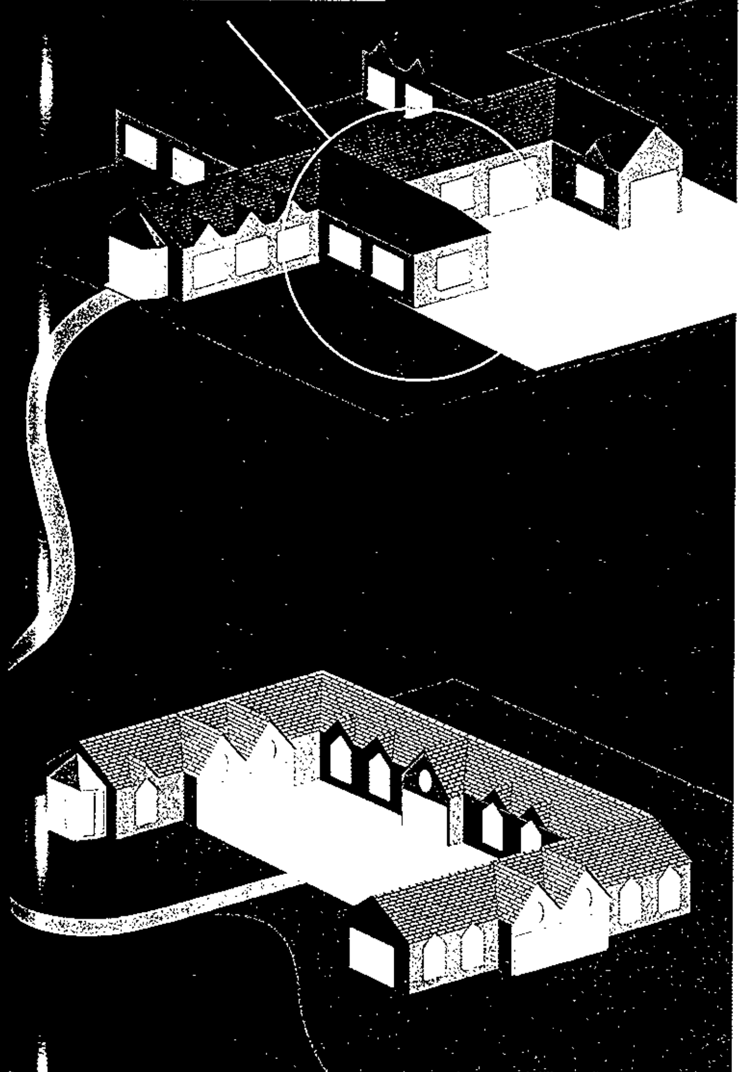


High quality laundry and kitchen facilities enable us to meet the needs of the community.

Living at home is made easier by the introduction of our 'Care-at-home' service.

Transforming our 'care homes' into 'care centres' means providing as many different services as our customers require. Nutritious meals can be prepared in our kitchens and delivered direct to clients in their homes. Care Centre facilities include fully equipped laundries enabling us to provide a regular external service. Our 'Care-at-home' carers and nurses can provide for clients' personal and healthcare needs.

Dual registration of one of our houses allows the residents the greatest flexibility as their care needs change



Adding luxury to high quality care.

Chief Executive's Review

Transforming our 'care homes' into 'care centres'

At the time of the merger we indicated that we would seek to provide a wider range of services to a broader customer base by expanding the services we offer from our facilities.

The uniquely flexible design of the Takare homes gives an excellent opportunity to develop and implement this strategy.
As can be seen from the illustration, this decision allows us to:

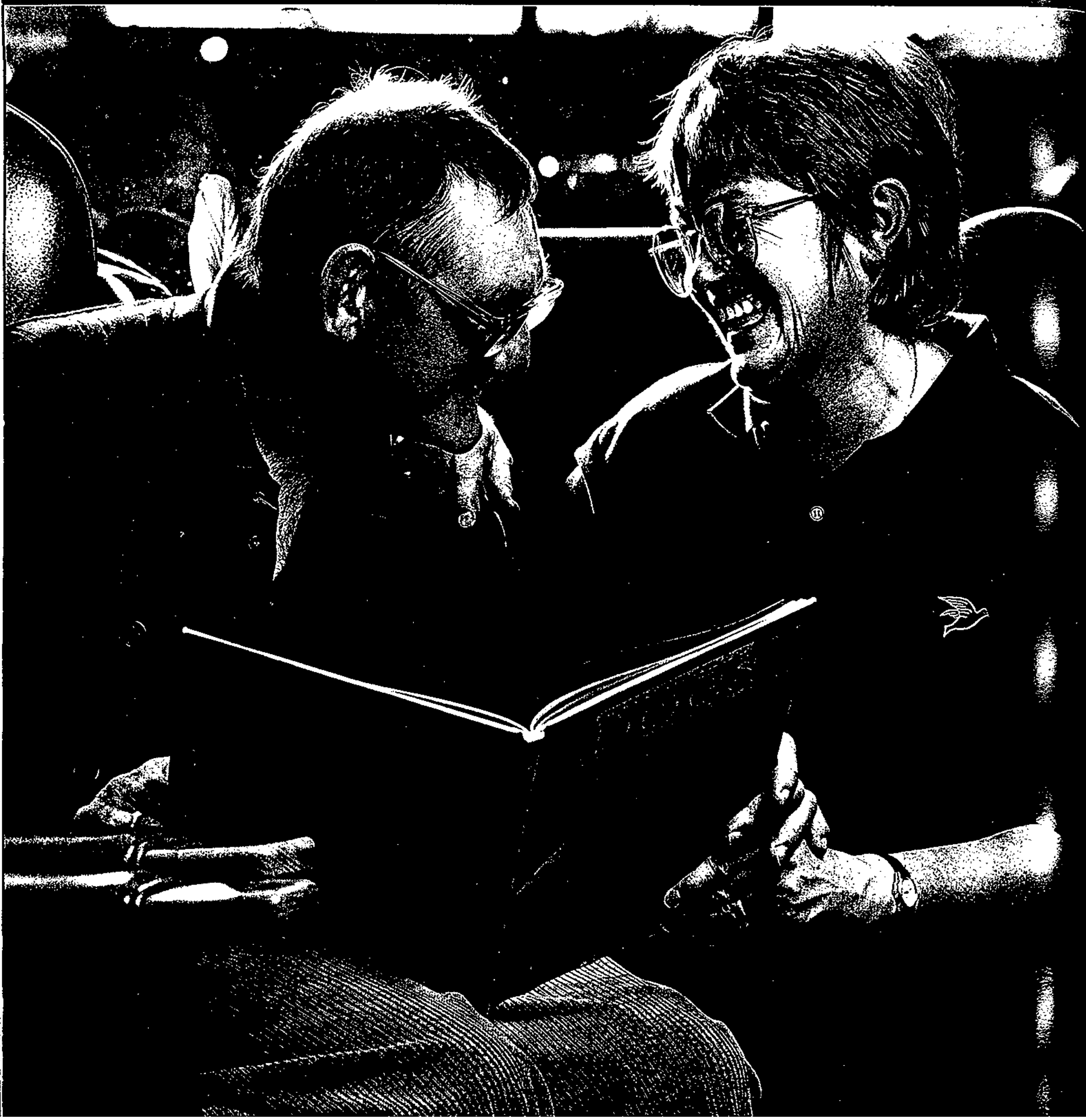
- Reposition, where appropriate, to luxury self-pay services
- Introduce in small 'group living' environments, specialist services for people with learning disabilities and other neurological and psychiatric conditions
- Provide 'care-at-home' services including home help, home nursing, home catering and laundry services

In short, where possible, we will seek to expand the range of services and reposition our facilities into 'Continuing Care Centres' providing individual care wherever it is needed.

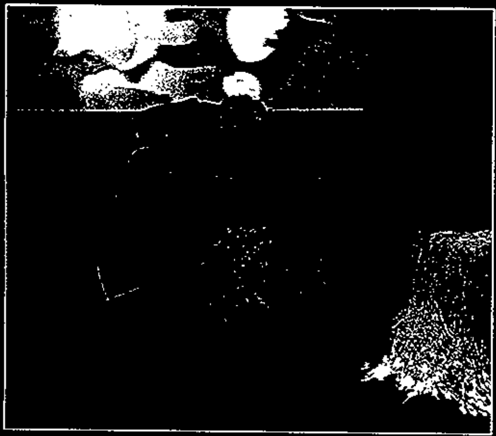
Providing an increasing range of 'Care at home' services.

Training our staff to meet more specialist health and care needs.

Designing facilities that are enabling.



Developing an earlier and more enduring relationship with our customers and being a one-stop solution for Local Authorities, Health Authorities and Trusts.



The Group already provides a wide range of services to different client groups, as can be seen from the table below:

Frail elderly care
Elderly mentally infirm
Young physically disabled
Learning disability
Neurological disorders
Home care
Meals for home delivery
Day centres
Facilities management

Chief Executive's Review

Expanding our range of services

We at TC Group recognise that our largest indirect customers – Local Authorities, Health Authorities and Trusts – are increasingly looking for a wide range of tailor-made, high-quality, value-for-money care solutions.

We have decided to accept this challenge and increase the range of services we will provide in the years to come and thus gain sector leadership. We wish to be seen as a 'one-stop' solution for those customers and to provide them with the same assurance that they have come to expect from the services we already provide to elderly people, in the new and emerging areas of Continuing Care.

Dr Chai Patel
Chief Executive

21st March 1997

Financial Review

"At 31st December 1996 shareholders' funds were £242.0 million, equivalent to a net asset value of 143.4 pence per share on the historical cost basis."

Introduction

This review comments on the Group's financial performance during 1996 expanding upon the key features within the financial statements on pages 28 to 43.

Merger with Court Cavendish

On 2nd October 1996 the Takare Group merged with Court Cavendish Group PLC by way of an agreed share exchange. Although a merger in substance, current rules require this to be treated as an acquisition for accounting purposes. The acquisition involved the issue of 42,884,697 new ordinary shares at a price of 144 pence. Including acquisition expenses of £2.3 million, the aggregate consideration amounted to £64.0 million.

The effect of the acquisition on the Group's financial position can be summarised as follows:

	£m
Net assets acquired at fair value:	
Fixed assets	88.9
Borrowings	(35.8)
Other net liabilities	(1.0)
	52.1
Purchase consideration	64.0
Goodwill written off	11.9

The trading results of the Court Cavendish Group have been consolidated from 2nd October 1996, the date on which the offer became unconditional.

Trading Results

The results for the year can be summarised as follows:

	1996			1995
	Takare	Court Cavendish	Total	
	£000	£000	£000	£000
Sales	122,846	11,659	134,505	110,268
Operating profit before exceptionals	21,245	1,526	22,771	21,547
Exceptional costs	(1,242)	(244)	(1,486)	-
Profit on disposal of fixed assets	27	-	27	786
Interest	(3,660)	(630)	(4,290)	(527)
Profit before tax	16,370	652	17,022	21,806

Profit before tax and exceptional items amounted to £18,508,000 (1995: £21,806,000).

Sales

In overall terms, turnover rose by 22%, of which 11.4% related to increased sales in the Takare homes and the balance to Court Cavendish's post-acquisition trading. Of the increase in turnover in the Takare homes 114.% related to an increase in the average number of contributing beds from 6,360 to 7,085. The average revenue per bed increased by 1.8% to £331 per week. Sales, however, of the property and design subsidiaries fell substantially following the decision to curtail new build.

The average revenue per bed for the Court Cavendish homes in the period from acquisition was £331 per week and the average number of contributing beds was 2,622. An analysis of the Group's current customer mix is given on page 8.

Operating profits and margins

Operating profit before exceptional items rose by 5.7% compared with the previous year. This was significantly less than the increase in turnover, reflecting a decline in occupancy in Takare's established homes from 94.1% to 91.7% during the year and disappointing fill rates for recently commissioned homes.

Operating margin (before exceptionals) fell from 19.5% to 16.9%. This was principally due to the drop in occupancy in the Takare homes, although Court Cavendish's operating margin in the period after 2nd October was 13.1%, further depressing Group margins. Court Cavendish's operating margins in 1996 have been reduced by lower average occupancy levels, initial losses on newly commissioned homes and the impact of lower margin but non-capital intensive contracts with Local Authorities.

Exceptional items

At the time of the Interim Results in August the Group announced the termination of the new build programme. Consequently, a number of employees left the Group's employment. Their severance costs are included in exceptional items.

In addition, following the acquisition of Court Cavendish, it was decided to close that company's central office in Potters Bar, introduce a new management structure and commission consultancy work on the re-branding of the Group. The associated severance, consultancy and property expenses have been included in exceptional items.

Interest

The Group's interest charge has increased significantly from £0.5 million to £4.3 million. This can be analysed as follows:

	£m
1995 net interest charge	0.5
Reduction in capitalised interest	1.6
Increase in interest payable on existing and new Takare borrowings	0.9
Interest costs related to Court Cavendish borrowings	0.6
Reduction in interest receivable	0.7
1996 net interest charge	4.3

Capitalised interest fell as the number of developments under construction declined following the Group's decision to curtail new build. Interest receivable declined and interest payable increased as a result of higher average borrowings in the year.

Taxation

Following the Group's decision to curtail investment in new homes it becomes inevitable that the accelerated tax benefits received in previous years will start to reverse. Accordingly, full provision has been made in this year's accounts for the unprovided deferred taxation at 31st December 1995, amounting to £15.3 million. In addition to this exceptional deferred tax charge the underlying tax charge for 1996 was £6.2 million, including £3.3 million of deferred tax, representing an effective tax rate of 36.4%. This rate is in excess of the UK statutory rate of 33% due to the depreciation of freehold buildings which is an ineligible cost for tax purposes.

Earnings per share

After charging exceptional costs of £1.5 million and exceptional deferred taxation of £15.3 million, the Group reported an attributable loss of £4.4 million, equivalent to a loss per share of 3.3 pence. Excluding exceptionals, the Group achieved an earnings per share of 8.8 pence (1995: 14.3 pence).

Financial position and gearing

At 31st December 1996 shareholders' funds were £242.0 million, equivalent to a net asset value of 143.4 pence per share on the historical cost basis. Borrowings, net of cash balances, at the year end were £101.4 million, giving gearing of 41.9%.

Cash flow and movement in borrowings

The Group remains strongly cash generative and its cash flows and borrowings movements can be summarised as follows:

	1996 £m	1995 £m
Operating cash flow	32.0	31.5
Interest, dividends and tax paid	(14.4)	(10.9)
Net capital expenditure and acquisitions	(29.1)	(48.3)
Share issues (for cash)	0.1	0.4
Net cash flow	(11.4)	(27.3)
Borrowings at beginning of year	(54.2)	(26.9)
Court Cavendish borrowings at acquisition	(35.8)	–
Borrowings at end of year	(101.4)	(54.2)

The Group's borrowings at 31st December 1996 can be analysed as follows:

	£m
11.8% Debenture stock	50.0
Fixed rate bank loans	20.0
Variable rate bank loans	20.5
Overdraft	13.7
Cash	(2.8)
	101.4

The fixed rate bank loans are repayable in 9 years (£10 million) and 4 years (£10 million) and carry interest rates of 8.4% and 8.2% respectively. The variable rate loans bear interest at 0.75% over LIBOR plus costs of funds.

At 31st December 1996 the Group had unutilised committed bank facilities amounting to £80 million, provided by a syndicate of banks, having an interest cost of 0.75% over LIBOR.

Going concern

The Directors have reasonable expectations that the Group and Company have 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.

Ron Reid
Finance Director

21st March 1997

Directors' Report

The Directors have pleasure in presenting their Annual Report to the Shareholders, together with the audited consolidated financial statements of the Company and its subsidiaries for the financial year ended 31st December 1996.

Principal activity

The principal activity of the Group is the development and operation of nursing and residential homes for highly dependent elderly residents.

Business review

A review of the business for the year and future developments is included in the Chairman's Statement on page 2, the Chief Executive's Review on pages 10 to 19 and the Financial Review on pages 20 and 21.

Profits and dividends

The Group profit on ordinary activities before taxation amounted to £17,022,000 (1995: £21,806,000). The way in which this profit has been dealt with is shown in the consolidated profit and loss account on page 28.
An interim dividend of 1.0p per ordinary share (1995: 0.9p) was paid on 7th October 1996. The Directors now recommend a final dividend of 2.45p per ordinary share (1995: 1.7p) making a total dividend for the year of 3.45p per ordinary share (1995: 2.6p). Subject to the approval of the Annual General Meeting, the final dividend will be paid on 30th April 1997 to Shareholders on the Register at the close of business on 7th April 1997.

Directors

The present Directors are listed on page 5. Mr H D Anstead served as Managing Director throughout the year and resigned on 21st March 1997. Dr C B Patel, Mr A G Heywood, Mr I Kirkpatrick and Mr A B M Good, were appointed as Directors on 2nd October 1996. With these exceptions all of the Directors named on page 5 held office throughout the year.

Dr C B Patel, the Chief Executive, and Mr A G Heywood, the Corporate Development Director, whose service agreements are terminable by 12 months' notice to expire on or at any time after 2nd October 1998, retire and offer themselves for re-election.

Mr I Kirkpatrick, Chairman of the Audit Committee and a member of the Remuneration Committee, and Mr A B M Good, a member of both Committees, both of whom are non-executive Directors whose appointments expire on 2nd October 1998, retire and offer themselves for re-election.

Mr W D V Pegg, Chairman of the Remuneration Committee, a member of the Audit Committee and a non-executive Director whose appointment expires on 11th March 1998, retires and offers himself for re-election.

Biographical details of the Directors are set out on page 5.

Details of the Directors' interests in the Company's shares are shown on pages 34 and 35.

Substantial shareholders

In addition to the Directors' shareholdings, as at 6th March 1997 the Directors had received notifications under the Companies Act that the following were interested in 3% or more of the issued Ordinary Shares:

	Number	%
NatWest Group	14,380,448	8.52
Abbey Life	7,247,660	4.29
Fidelity Investments	6,186,460	3.66
Mercator Asset Management	5,998,000	3.55

Fixed Assets

The Directors are satisfied that in aggregate the book value of the Group's properties are conservatively stated in relation to current market values. Given the present market conditions and the inherent difficulty in assessing market values the Directors believe that it would be inappropriate to quantify the extent of the unrealised appreciation in the Group's property portfolio at the present time.

Movements in fixed assets during the year are shown in note 10 to the accounts.

Employees

The Group recognises its responsibilities in employing and training disabled persons. Employees who become disabled are retained where possible in their existing or more suitable roles. The Group makes every effort to ensure that disabled persons receive equal opportunities and are not discriminated against on the grounds of their disability.

The Group recognises the importance of good communications and relations with employees.
The management of the Group is responsible for the development of employee participation practices where

they are appropriate to the Group's requirements.

Charitable and Political Donations

A charitable donation of £10,000 was made during the year. No political donations were made.

Share Capital

At an Extraordinary General Meeting held on 2nd October 1996, the authorised share capital of the Company was increased from £62,500,000 to £75,000,000 by the creation of 50,000,000 new ordinary shares of 25 pence each.

Merger

During the year the Company merged with Court Cavendish Group PLC (Court Cavendish) and changed its name to TC Group plc. The merger was effected by means of an agreed offer for the whole of the issued share capital of Court Cavendish of 157 ordinary shares of 25p each in exchange for 100 Court Cavendish ordinary shares of 5p each. This involved the issue of 42,884,697 new ordinary shares to Court Cavendish shareholders. Upon the merger offer being declared unconditional the four Court Cavendish Directors were appointed to your Board.

Annual General Meeting

The notice convening the Annual General Meeting to be held on Tuesday 29th April 1997 is contained on pages 45 and 46. Three special resolutions are to be proposed. Resolution 9 is the usual resolution to authorise the Directors:

- to allot ordinary shares limited to an amount equal to the unissued ordinary share capital of the Company and
- to allot equity securities for cash without first offering such securities to existing shareholders. This authority is limited to an amount equal to 5 per cent of the issued ordinary share capital.

The resolution complies with institutional shareholder guidelines.

By Resolution 10 authority will be sought by the Directors in accordance with Article 10 of the Articles of Association of the Company (and Part V Chapter VII of the Companies Act 1985) enabling them to make market purchases of the Company's own shares on such terms and in such a manner as the Directors may from time to time determine, subject to certain limitations, such authority to expire at the 1998 Annual General Meeting. The Directors intend to seek to renew this authority at the 1998 Annual General Meeting and to make such renewal part of the regular business of subsequent Annual General Meetings. The Directors intend that purchases of shares should only be made if they are satisfied that such purchase would be in the best interests of the shareholders of the Company as a whole.

The reason for Resolution 11 (to change the name of the Company) is set out in the Chairman's Statement on page 2.

Audit and Remuneration Committees

Following the merger and the appointment of Mr I Kirkpatrick and Mr A B M Good as non-executive Directors both became members of the Audit and Remuneration Committees and Mr I Kirkpatrick was appointed Chairman of the Audit Committee.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution is to be proposed at the Annual General Meeting for their re-appointment and for their remuneration to be fixed by the Directors.

Policy on Payment of Commercial Debts

It is the Company's policy to settle terms of payment with its suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of those terms, and to abide by the agreed terms of payment.

By Order of the Board

Eric Woodhead
Secretary

T C House
Whitechapel Way
Priorslee
Telford
Shropshire TF2 9SP
21st March 1997

Corporate Governance

Board Committees

Two committees of the Board, the Audit Committee and the Remuneration Committee, are important pre-requisites of compliance with the Cadbury Code of Practice (the Code). Both Committees are formally constituted with written terms of reference.

The Audit Committee is comprised of Mr W D V Pegg, Mr K Ackroyd, Baroness Dean and from 18th October 1996, Mr I Kirkpatrick and Mr A B M Good. The Committee meets at least twice per year. The external auditors also attend for part or the whole of each meeting and they have direct access to members of the Committee without the attendance of executive Directors. The Audit Committee may examine any matters relating to the financial affairs of the Group, including reviews of the annual and interim accounts and announcements, internal control procedures, accounting policies and compliance. The Chairman of the Committee was Mr W D V Pegg until 18th October 1996 and is now Mr I Kirkpatrick.

The Remuneration Committee, comprising Mr W D V Pegg, Mr K Ackroyd, Baroness Dean and, from 18th October 1996, Mr I Kirkpatrick and Mr A B M Good, approves the remuneration of and the granting of share options and service contracts to the executive Directors. The Chairman of the Committee is Mr W D V Pegg.

The Company Secretary acts as secretary to both Committees.

The minutes of the Committees are reported by the respective Chairmen at the next full board meeting and formally recorded.

Code of Best Practice

The Board has continued to monitor the Company's compliance with the Code which was issued by the Cadbury Committee on 1st December 1992. The Company was in full compliance with the Code throughout the year ended 31st December 1996.

Internal Financial Controls

The Directors are responsible for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Key procedures that have been established and are designed to provide effective internal financial control are:

- Control environment – the Directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Group's primary objective is the delivery of high quality nursing/residential care which is achieved by Matrons/Principal Nursing Officers/Managers establishing high standards of care, integrity and professionalism. This is supported by detailed operational and nursing manuals which lay down minimum standards. The Group's commitment to quality nursing/residential care is further supported by ongoing training programmes.
- Risk Management – the Group's executive Directors have a clear responsibility for identifying risks facing the business, and putting in place procedures to mitigate and monitor risk. Risks are assessed during the annual budgeting and planning process and are monitored by the Board.
- Information and Communication – the Group has developed a focused and timely reporting system which allows senior management to monitor and evaluate the performance of each nursing/residential home. The Group's management accounts identify the key indicators which facilitate effective control and highlight anomalies or deteriorating performance. The management accounts are distributed on a timely basis to all relevant personnel. The annual budget and rolling five year plan are approved by the Board and the annual budget includes a trading budget for each home against which performance is monitored.
- Control Procedures – detailed policies and procedures are maintained at all homes and central office. A potential nursing/residential home site is subject to detailed demographic and commercial reviews and extensive surveys before a site is acquired. In addition, the Group employs experienced building contractors.
- Monitoring Systems – all nursing homes are subject to a regular clinical audit to ensure quality care standards are maintained. A monthly operations review is performed to validate the operation of procedures and controls.

The Audit Committee has reviewed whether the system of financial controls operated effectively for the year in relation to the "Criteria for assessing effectiveness" described in "internal controls and financial reporting" issued by the Cadbury Internal Control Working Group. This involved considering a report summarising the operation of the Group's internal financial controls.

Signed on behalf of the Board of Directors

Keith Bradshaw
Chairman

21st March 1997

Report of the Remuneration Committee

Composition of the Remuneration Committee

The members of the Committee during the year ended 31st December 1996 and until 21st March 1997, were Mr W D V Pegg (Chairman), Mr K Ackroyd, Baroness Dean and, from 18th October 1996, Mr I Kirkpatrick and Mr A B M Good, all non-executive Directors of the Company.

Compliance

The constitution and operation of the Committee is and was throughout the year ended 31st December 1996, in compliance with Section A of the best practice provisions relating to Directors' remuneration, annexed to the Listing Rules of the London Stock Exchange. The Committee in forming its remuneration policy has given full consideration to Section B of the best practice provisions, annexed to the Listing Rules.

Policy on Remuneration of Executive Directors

The Committee's policy is to offer remuneration packages designed to attract, retain and motivate executive Directors of the calibre and experience needed to enable the Company to succeed. The main components are:

Basic Salary

Salaries of the executive Directors are determined by the Committee after taking account of comparative market data and reviewed having regard to the performance of the individual. In the case of executive Directors other than the Chairman, the Committee is assisted by the Chairman in this review.

The Committee believes that the executive Directors should be rewarded fairly and competitively and as a broad principle they should be rewarded at the level of remuneration paid to Directors in comparable public companies of similar size and turnover. The Committee uses external advisers to provide this comparative data.

Long-Term Incentive Scheme

The Executive long-Term Incentive Scheme for executive Directors referred to in the Committee's report last year, was formally wound up on 5th September 1996 and bonuses then vested were paid to the executive Directors.

Annual Bonus Plan

On 10th January 1997, the Committee resolved to adopt (with effect from 1st January 1997) an Annual Bonus Plan to cover all executive Directors and all other employees with an annual salary of £25,000 or more, including all Home Managers/Matrons. For the executive Directors, other than the Chief Executive, the plan provides a potential yearly bonus of 35% of salary based on a corporate performance measure. In the case of the Chief Executive the maximum potential yearly bonus is 50% of salary. Bonus is triggered when the increase over the previous year in pre-tax earnings per share of the Company exceeds 10%. Each 1% increase over 10% will provide a bonus of 7% or 10% of salary up to the maxima of 35% or 50%, as applicable.

Share Options

The Company operates discretionary share option arrangements for executives including executive Directors. Options granted under the executive schemes may only be exercised if, over any period of three consecutive years commencing not earlier than the date of grant of the options, the growth in earnings per share of the Company has exceeded the growth in the Retail Price Index. The options granted in October and November 1996 were subject to the additional performance condition referred to in note 16 to the accounts on page 41. Executive Directors have also been granted options under the Company's savings related share option schemes which are open to all employees.

Pension Arrangements

With the exception of Dr C B Patel and Mr A G Heywood there are no Company pension arrangements for the executive Directors, nor is there a Company contribution to any personal pension arrangements the individuals may have. Dr Patel and Mr Heywood are members of the Court Cavendish Executive Pension Scheme. This is a defined contribution scheme into which the Company now contributes 1% of Dr Patel's and 2% of Mr Heywood's basic salary.

Service Contracts

The service contract for the Chairman includes a 12 month period of notice. The service contracts for Dr C B Patel and Mr A G Heywood are for a period of two years from 2nd October 1996, subject to 12 months' notice to expire on or after the second anniversary. Mr R J Reid agreed in January 1995, that the notice period in his service contract be reduced from 3 years to 2 years. It is not proposed to make any further reduction. The unexpired terms of the service contracts of those Directors proposed for re-election at the forthcoming Annual General Meeting are stated in the Directors' Report on page 22.

Elements of Remuneration

The various elements of remuneration receivable by each Director during the year are set out in note 3 to the accounts, on pages 33 to 35.

David Pegg
Chairman of the
Remuneration Committee

21st March 1997

Directors' responsibilities

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on page 27, is made with a view to distinguishing for Shareholders the respective responsibilities of the Directors and Auditors in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss for the financial year. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the 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 Company and Group and to prevent and detect fraud and other irregularities.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Signed on behalf of the Board of Directors

Keith Bradshaw
Chairman

21st March 1997

Review report by KPMG Audit Plc to T C Group plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 24 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statement on internal financial control on page 24 and going concern on page 21, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 24 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants

2 Cornwall Street
Birmingham B3 2DL
21st March 1997

Report of the Auditors, KPMG Audit Plc

To the members of T C Group plc

We have audited the financial statements on pages 28 to 43.

Respective responsibilities of Directors and Auditors
As described on page 26 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied, and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31st December 1996 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants and
Registered Auditor

2 Cornwall Street
Birmingham B3 2DL
21st March 1997

Consolidated Profit and Loss Account

for the year ended 31st December 1996	Note	1996 Continuing operations £000	1996 Acquired £000	1996 Total £000	1995 Total £000
Turnover		122,846	11,659	134,505	110,268
Cost of sales		(97,601)	(9,573)	(107,174)	(84,978)
Gross profit		25,245	2,086	27,331	25,290
Administrative expenses:					
Ongoing		(4,000)	(560)	(4,560)	(3,743)
Exceptional	4	(1,242)	(244)	(1,486)	–
		(5,242)	(804)	(6,046)	(3,743)
Operating profit		20,003	1,282	21,285	21,547
Profit on disposal of fixed assets		27	–	27	786
Net interest payable	5	(3,660)	(630)	(4,290)	(527)
Profit on ordinary activities before taxation	6	16,370	652	17,022	21,806
Tax on profit on ordinary activities:					
Underlying tax charge		(5,948)	(251)	(6,199)	(3,870)
Exceptional deferred tax charge	7	(15,267)	–	(15,267)	–
	7	(21,215)	(251)	(21,466)	(3,870)
(Loss)/profit for the financial year		(4,845)	401	(4,444)	17,936
Dividends paid and proposed	8	(5,396)	–	(5,396)	(3,270)
Retained (loss)/profit for the financial year	17	(10,241)	401	(9,840)	14,666
(Loss)/earnings per share	9			(3.3p)	14.3p
Earnings per share (before exceptional items and exceptional deferred tax charge)	9			8.8p	14.3p

All the amounts above relate to continuing operations.
There were no recognised gains or losses, in either the current or preceding year, other than the profit for the financial year.

Reconciliation of Movement in Shareholders' Funds

for the year ended 31st December 1996	1996 £000	1995 £000
(Loss)/profit for the financial year	(4,444)	17,936
Dividends paid and proposed	(5,396)	(3,270)
Shares issued during the year	61,808	391
Goodwill written off (note 1)	(11,929)	–
Net addition to Group shareholders' funds	40,039	15,057
Group shareholders' funds at beginning of year	201,949	186,892
Group shareholders' funds at end of year	241,988	201,949

Balance Sheets

at 31st December 1996	Note	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Fixed assets					
Tangible assets	10	**383,010**	271,448	**–**	–
Investments	11	**–**	–	**189,270**	177,221
		383,010	271,448	**189,270**	177,221
Current assets					
Debtors	12	**7,037**	3,886	**40,340**	36,108
Cash and deposits		**2,818**	–	**8,235**	16,960
		9,855	3,886	**48,575**	53,068
Creditors: amounts falling due within one year	13	**(38,724)**	(20,608)	**(6,865)**	(4,203)
Net current (liabilities)/assets		**(28,869)**	(16,722)	**41,710**	48,865
Total assets less current liabilities		**354,141**	254,726	**230,980**	226,086
Creditors: amounts falling due after more than one year	14	**(90,435)**	(50,515)	**(50,455)**	(50,535)
Provisions for liabilities and charges	15	**(21,718)**	(2,262)	**–**	–
		241,988	201,949	**180,525**	175,551
Capital and reserves					
Called up share capital	16	**42,201**	31,464	**42,201**	31,464
Share premium account	17	**111,913**	111,875	**111,913**	111,875
Merger reserve	17	**39,104**	–	**–**	–
Profit and loss account	17	**48,770**	58,610	**26,411**	32,212
Equity shareholders' funds		**241,988**	201,949	**180,525**	175,551

Approved by the board on 21st March 1997 and signed on its behalf by

Keith Bradshaw
Executive Chairman

Ron Reid
Finance Director

Consolidated Cash Flow Statement

for the year ended 31st December 1996	Note	1996 £000	1996 £000	1995 £000	1995 £000
Net cash inflow from operating activities	18		32,057		31,575
Returns on investments and servicing of finance					
Interest received		26		1,020	
Interest paid		(7,109)		(6,024)	
Net cash outflow for interest			(7,083)		(5,004)
Taxation					
Advance corporation tax		(817)		(720)	
Corporation tax		(3,089)		(2,187)	
Net cash outflow for tax paid			(3,906)		(2,907)
Capital expenditure					
Purchase of fixed assets		(28,942)		(50,693)	
Sale of fixed assets		1,777		2,419	
Net cash outflow for capital expenditure			(27,165)		(48,274)
Acquisitions	20		(1,931)		-
Dividends paid			(3,400)		(3,011)
Management of liquid resources					
Deposits returned			-		12,500
Financing					
Issue of ordinary shares	19	54		391	
New loans	19	4,213		-	
Loans repaid	19	(80)		(69)	
Net cash inflow from financing			4,187		322
Decrease in cash	21		(7,241)		(14,799)

Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 31st December 1996	1996 £000	1995 £000
Decrease in cash	(7,241)	(14,799)
Cash (inflow)/outflow from (increase)/decrease in debt	(4,133)	69
Cash inflow from decrease in liquid resources	-	(12,500)
Change in net debt resulting from cash flow (note 21)	(11,374)	(27,230)
Loans acquired with subsidiary (note 1)	(35,787)	-
Movement in net debt in the period	(47,161)	(27,230)
Net debt at beginning of year	(54,194)	(26,964)
Net debt at end of year	(101,355)	(54,194)

Accounting Policies

(a) Accounting convention
These financial statements have been prepared in accordance with the Companies Act 1985 using the historical cost convention and in accordance with applicable UK accounting standards.

(b) Consolidation
The consolidated accounts incorporate the accounts of TC Group plc and all of its subsidiary undertakings made up to 31st December 1996. The results of subsidiary companies and associated undertakings acquired or disposed of during the year are included from, or to, the effective date of acquisition or disposal.
A separate profit and loss account dealing with the results of the Company only has not been presented in accordance with the exemption given by section 230 of the Companies Act 1985.

(c) Goodwill
Goodwill, representing the excess of the fair value of the consideration given over the fair value of the net assets of the subsidiary undertaking acquired, is written off against reserves. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging goodwill previously taken to reserves.

(d) Turnover
Turnover represents the amounts receivable in the ordinary course of business for services provided after deducting value added tax.

(e) Segmental analysis
In the opinion of the Directors there is only one class of business, all of which was transacted in the United Kingdom.

(f) Depreciation
Depreciation is provided so as to write off the cost of tangible fixed assets to their residual values over their estimated useful lives by applying the straight line method and using the following annual rates or periods:

	Annual Rate
Freehold land	NIL
Freehold premises	2%
long leasehold premises	2%
Short leasehold premises	over term of lease
Major refurbishments	20%
Fixtures and fittings analysed as follows:	
White goods, light fittings and soft furnishings	10%
Boilers and pumps, fire safety equipment, communication systems, kitchen equipment and medical equipment	5%
Electrical wiring and sanitary ware	2%
Motor vehicles and computers	25%

It is the Group's policy to maintain its premises to a high standard through a continuing programme of maintenance and refurbishment.

(g) Leases
Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.
Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

(h) Finance costs
The Group uses only third party building companies that are experienced in the construction of specialist nursing homes. New developments are financed by making regular stage payments to these building companies.
The interest costs incurred on financing land and buildings during development are capitalised as part of the direct cost of each development. The rate of interest used is the weighted average cost of borrowings during the period. Interest is only capitalised up to the date that a new home is registered.

(i) Pre-registration costs
Certain expenditure incurred in connection with the commissioning of new developments prior to their registration as nursing homes is capitalised and amortised by ten equal annual instalments.

(j) Deferred taxation
Deferred taxation relating to capital allowances and other timing differences is provided in the accounts only in so far as a liability is expected to crystallise in the forseeable future.

(k) Pensions
The Group operates various defined contribution pension schemes. The assets of those schemes are held separately from those of the Group in independently administered funds.

Notes to the Accounts

1 Acquisitions

(a) Profit and loss account

The results of Court Cavendish Group PLC from 1st May 1996 to 2nd October 1996, being the effective date of acquisition, are detailed as follows:

	£000
Turnover	17,841
Cost of sales	(14,476)
Gross profit	3,365
Administrative expenses*	(1,267)
Operating profit	2,098
Profit on disposal of fixed assets	822
Net interest payable	(926)
Profit on ordinary activities before taxation	1,994
Tax on profit on ordinary activities	(295)
Profit on ordinary activities after tax	1,699

*Includes £203,000 of exceptional costs relating to the acquisition of Greenacre Group plc.

There were no recognised gains and losses other than the profit for the period.

The profit after tax of Court Cavendish Group PLC for the year ended 30th April 1996 was £4,067,000.

(b) Assets acquired and goodwill arising

Goodwill arising on the acquisition of Court Cavendish Group PLC is detailed as follows:

	Book value £000	Alignment of accounting policies £000	Revaluation £000	Fair value £000
Fixed assets	90,443	–	(1,491)	88,952
Stocks	95	(95)	-	-
Debtors	4,597	(139)	–	4,458
Cash and deposits	371	–	-	371
Bank overdraft	-	-	-	-
Trade and other creditors	(4,178)	(300)	–	(4,478)
Bank loans	(35,787)	-	–	(35,787)
Deferred tax	-	(1,389)	-	(1,389)
	55,541	(1,923)	(1,491)	52,127
Consideration including costs				64,056
Goodwill				11,929

The consideration was satisfied by the issue of 42,884,697 25p ordinary shares giving rise to a total consideration of £61,753,964. Costs of the acquisition totalled £2.3m.

2 Employees and staff costs

	1996 Number	1995 Number
The average number of persons employed by the Group during the year was:		
Health care (including part-time employees)	**11,055**	8,926
Managerial and administrative	**132**	111
	11,187	9,037

At 31st December 1996, the Group employed approximately 14,500 people (1995: 9,900)

The aggregate payroll costs (including Directors) were as follows:	1996 £000	1995 £000
Wages and salaries	**75,202**	60,015
Social security costs	**5,394**	4,095
Other pension costs	**26**	18
	80,622	64,128

3 Directors

(a) Emoluments

(i) Greenbury requirements

The following table is intended to bring together, in one place, the value of the various elements of remuneration received by each director during the year.

	Salary & Fees £000	Benefits* £000	long-term incentive schemes £000	1996 Total £000	1995 Total £000
Executive Directors					
K G Bradshaw	183	20	-	**203**	201
C B Patel	47	5	-	**52**	-
H D Anstead	165	8	80	**253**	168
R J Reid	144	11	70	**225**	151
A G Heywood	30	5	-	**35**	-

	Salary & Fees £000	Benefits £000	1996 Total £000	1995 Total £000
Non-executive Directors				
K Ackroyd	16	-	**16**	16
Baroness Dean	16	-	**16**	2
A B M Good	4	-	**4**	-
I Kirkpatrick	4	-	**4**	-
W D V Pegg	18	-	**18**	17

* Including pension contributions.

Notes to the Accounts

3 Directors (continued)

(a) Emoluments (continued)

(ii) Companies Act Disclosures

The information contained below is given in order to comply with the Companies Act. Because of the different definitions and bases of measurement used, these figures may differ from the figures given above.

	1996 £000	1995 £000
Emoluments	822	576
Pension contributions	4	–
	826	576
Directors' emoluments, excluding pension contributions, include amounts paid to:		
Chairman	203	201
Highest paid director	253	168

The emoluments (excluding pension contributions) of all the Directors of the Company are set out below:	Number	Number
£250,001 – £255,000	1	–
£225,001 – £230,000	1	–
£200,001 – £205,000	1	1
£175,001 – £180,000	–	1
£155,001 – £160,000	–	1
£45,001 – £50,000	1	–
£30,001 – £35,000	1	–
£15,001 – £20,000	3	2
£5,001 – £10,000	–	1
£1 – £5,000	2	1

(b) Directors' interests in the share capital of the Company

(i) Notifiable interests of the Directors in the Ordinary Shares of the Company are as follows.

	At 31st December 1996		At 31st December 1995	
Total	Beneficial	Non-beneficial	Beneficial	Non-beneficial
K G Bradshaw	7,053,032	5,629,695	7,061,132	5,611,627
C B Patel	946,570	–	–	–
H D Anstead	44,076	–	43,923	–
R J Reid	5,600	–	5,600	–
A G Heywood	18,840	–	–	–
K Ackroyd	1,000	–	1,000	–
Baroness Dean	–	–	–	–
A B M Good	150,000	–	–	–
I Kirkpatrick	4,710	–	–	–
W D V Pegg	19,341	–	19,341	–

Share Options outstanding at 31st December 1996 under the Takare No. 1 Executive Share Option Scheme (1990) were as follows:

Exercise Price Period exercisable	129p 1993-2000	137p 1994-2001	167p 1995-2002	225p 1996-2003	256p 1997-2004	199p 1998-2005	146p 1999-2006
K G Bradshaw	–	–	–	–	–	–	20,547
H D Anstead	139,626	58,366	59,900	26,650	16,406	89,636	–
R J Reid	–	–	179,698	35,533	14,844	71,514	–

3 Directors (continued)

(b) Directors' interests in the share capital of the Company (continued)

Share Options outstanding at 31st December 1996 under the Takare No. 2 Executive Share Option Scheme (1990) (unapproved) were as follows:

Exercise Price	**148p**	**144.5p**
Period exercisable	**1999–2003**	**1999–2003**
K G Bradshaw	–	505,547
C B Patel	–	213,121
H D Anstead	2,702	238,098
R J Reid	2,364	210,162
A G Heywood	–	110,192

Share Options outstanding at 31st December 1996 under the Court Cavendish 1993 Executive Share Option Scheme were as follows:

Exercise Price	**143p**	**136p**	**132p**
Period exercisable	**1996–2003**	**1997–2004**	**1999–2006**
C B Patel	293,065	56,520	78,500
A G Heywood	195,377	12,560	39,250

The options exercisable from 1999 were granted during the year. K G Bradshaw, H D Anstead and R J Reid each have 13,016 share options exercisable at 144p, under the Takare plc Savings Related Share Option Scheme. C B Patel and A G Heywood each have 15,045 share options exercisable at 114p under the Court Cavendish 1993 Savings Related Share Option Scheme.

Options to purchase fully paid ordinary shares were granted under the share option schemes described on page 41. No Directors' options have been exercised or have lapsed during the year. At the date of this report, there have been no changes to the Directors' share interests from those stated above. The market price of the Company's shares at 31st December 1996 was 134 pence. The price varied during the year between a high of 176.5 pence and a low of 123 pence.

4 Exceptional items

The exceptional items represent the costs associated with the cessation of the new building programme and the integration of Court Cavendish. It principally comprises severance and redundancy payments, consultancy costs related to the re-branding of the Group's services and other expenses associated with the closure of Court Cavendish's former central office at Potters Bar.

5 Net interest payable

	1996 £000	1995 £000
Interest payable		
Interest on bank loans and overdraft	**(1,555)**	(121)
Interest on debenture stock	**(5,900)**	(5,900)
	(7,455)	(6,021)
Interest capitalised in respect of developments in progress	**3,139**	4,737
	(4,316)	(1,284)
Interest receivable and similar income	**26**	757
	(4,290)	(527)

Notes to the Accounts

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is arrived at after charging:

	1996 £000	1995 £000
Depreciation	8,174	6,465
Auditors' remuneration	59	50
Hire of equipment	15	-
Operating lease rentals - land and buildings	479	112

In addition to the auditors' remuneration, fees paid to KPMG Audit Plc and its associates for other services amounted to £300,000 (1995: £90,000).

7 Tax on profit on ordinary activities

The charge for taxation is based on the profit on ordinary activities for the year and comprises:

	1996 £000	1995 £000
UK Corporation tax at 33.0% (1995: 33.0%)	2,899	3,870
Deferred taxation - current year	3,300	-
- exceptional (see below)	15,267	-
	21,466	3,870

As a result of the decision to curtail the new home build programme, timing differences in respect of capital allowances and other items are expected to reverse in the foreseeable future. Accordingly provision has been made for the deferred tax liability arising in the current year and the unprovided deferred tax liability at 31st December 1995.

8 Dividends paid and proposed

	1996 £000	1995 £000
Interim dividend paid of 1.0p per Ordinary Share (1995: 0.9p)	1,260	1,130
Proposed final dividend of 2.45p per Ordinary Share (1995:1.7p)	4,136	2,140
	5,396	3,270

9 (i) (Loss)/earnings per share

The calculation of the loss (1995: earnings) per Ordinary Share is based on a loss of £4,444,000 (1995: profit of £17,936,000) and Ordinary Shares of 136,221,382 (1995:125,577,137) being the weighted average number of Ordinary Shares in issue during the year.

(ii) Earnings per share (before exceptional items and exceptional deferred tax charge)

The calculation is based on earnings comprised as follows:

	£000
Loss as used in the calculation of loss per Ordinary Share	(4,444)
Add: Exceptional administrative expenses (net of attributable tax)	1,128
Exceptional deferred tax charge (note 7)	15,267
	11,951

The dilution effect of the share option schemes on the calculation of earnings per share on both of the above bases is not material.

10 Tangible fixed assets

Group

	Land & buildings £000	Fixtures & fittings £000	Motor vehicles £000	Assets under construction £000	Total £000
Cost					
As at 1st January 1996	184,228	61,648	1,127	39,069	286,072
Additions	1,428	4,623	650	25,833	32,534
Acquisitions	81,950	11,618	494	1,242	95,304
Disposals	(1,221)	(234)	(425)	(200)	(2,080)
Reclassifications	35,790	9,748	-	(45,538)	-
As at 31st December 1996	302,175	87,403	1,846	20,406	411,830
Depreciation					
As at 1st January 1996	2,996	11,191	437	-	14,624
Acquisitions	1,215	4,891	246	-	6,352
Charge for the year	3,209	4,651	314	-	8,174
Disposals	-	(59)	(271)	-	(330)
As at 31st December 1996	7,420	20,674	726	-	28,820
Net book value					
As at 31st December 1996	294,755	66,729	1,120	20,406	383,010
As at 31st December 1995	181,232	50,457	690	39,069	271,448

Land and buildings of the Group include long leasehold land and buildings with a net book value amounting to £13,494,000 (1995: £11,269,000).

The value of freehold land included within land and buildings is £66,511,000 (1995: £35,359,000).

Tangible fixed assets of the group include capitalised interest with a net book value as follows:

	1996 £000	1995 £000
Land and buildings and fixtures and fittings	**22,419**	18,761
Assets under construction	**1,635**	2,663
	24,054	21,424

Fixtures and fittings of the Group include pre-registration costs amounting to £2,904,000 (1995: £1,841,000).

Contracted capital commitments of the Group at 31st December, for which no provision has been made, were £5,050,000 (1995: £15,011,000).

Notes to the Accounts

11 Investments

Company

	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost			
At 1st January 1996	129,811	52,000	181,811
Additions	12,049	-	12,049
At 31st December 1996	141,860	52,000	193,860
Provisions			
At 1st January 1996 and 31st December 1996	(4,590)	-	(4,590)
Net book value			
At 31st December 1996	137,270	52,000	189,270
At 31st December 1995	125,221	52,000	177,221

During 1996 the Company acquired the whole of the issued share capital of Court Cavendish Group PLC by way of an agreed share for share exchange. The Company issued 42,884,697 new ordinary shares and incurred acquisition expenses of £1.3 million as a consequence of this acquisition.

At 31st December 1996 the Company owned the whole of the issued share capital of the following undertakings either directly or indirectly which operate in the United Kingdom and are registered in England and Wales with the exception of Greenacre Residential Retirement Homes Limited which is registered in Scotland.

Name	Ordinary shares of £1 each Number	Business activity
Court Cavendish Group PLC	27,211,149*	Holding company
Takare Homes Limited	125,000,000	Owner and operator of nursing homes
Takare Developments Limited	200,000	Developer of nursing homes
Architectural Project Design Limited	2	Architectural and design consultants
Court Cavendish Care Homes Limited	3,368,562	Owner and operator of care homes
Court Cavendish Healthcare Limited	100	Owner and operator of care homes
Cavendish Hyde Limited	2	Owner and operator of care homes
Court Cavendish (Beckton) Limited	1	Developer of care homes
Court Cavendish Properties Limited	100	Holding company
Greenacre Group plc	175,928,057†	Holding company
Greenacre UK Limited	2	Owner and operator of care homes
Greenacre Residential Retirement Homes Limited	100	Owner and operator of care homes
Tyro Limited	100	Contract packer

In addition to the companies listed above the Company either directly or indirectly owns a number of non-trading subsidiary companies.

Subsidiary undertakings are included at cost less provisions and have been consolidated using acquisition accounting.

* The nominal value of the Court Cavendish Group PLC Shares is 5 pence.
† The nominal value of the Greenacre Group plc Shares is 1 penny.

12 Debtors

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Trade debtors	4,499	2,577	–	–
Amounts owed by subsidiary undertakings	–	–	38,080	35,569
Other debtors	649	597	1,909	535
Prepayments and accrued income	1,889	712	351	4
	7,037	3,886	40,340	36,108

Other debtors of the Company includes advance corporation tax of £1,884,000 (1995: £534,000) which is recoverable after more than one year.

13 Creditors: amounts falling due within one year

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Bank overdraft	13,664	3,605	–	–
long-term loan (see note 14)	74	74	74	74
Trade creditors	2,982	2,127	25	8
Corporation tax	4,040	3,801	1,354	943
Other taxes and social security	1,959	1,933	632	762
Proposed dividend	4,136	2,140	4,136	2,140
Accruals and deferred income	11,869	6,928	644	276
	38,724	20,608	6,865	4,203

14 Creditors: amounts falling due after more than one year

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Debenture stock	50,000	50,000	50,000	50,000
long-term loan	435	515	435	515
Bank loans	40,000	–	–	–
Amounts owed to subsidiary undertakings	–	–	20	20
	90,435	50,515	50,455	50,535

The 11.8% debenture stock is repayable at par in 2014. The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over the remainder of the Company's and Takare Homes Limited's assets. The long-term loan is with 3i plc, is secured by a fixed charge over one of the Group's properties and carries interest at 2.5% over 3 month LIBOR subject to a minimum rate of 9.5%.

The bank loans and long-term loan are repayable as follows:

	Group and Company 1996 £000	Group and Company 1995 £000
In one year or less	74	74
Between one and two years	74	74
Between two and five years	30,223	223
In five years or more	10,138	218
	40,509	589

Notes to the Accounts

15 Provisions for liabilities and charges

	Group £000s
Deferred taxation	
At 1st January 1996	2,262
Profit and loss account (note 7)	18,567
Acquisitions (note 1)	1,389
Movements in advance corporation tax	(500)
At 31st December 1996	21,718

The amount provided and the amount unprovided have been calculated at 33% (1995: 33%) and are comprised as follows:

	Group			
	Provided		Unprovided	
	1996 £000	1995 £000	1996 £000	1995 £000
Accelerated capital allowances	16,101	2,796	-	9,364
Capitalised interest	6,206	-	-	5,621
Capital gains rolled over	-	-	576	334
Pre-registration costs	1,017	-	-	608
Other timing differences	(572)	-	-	(326)
	22,752	2,796	576	15,601
Less: advance corporation tax	(1,034)	(534)	-	-
	21,718	2,262	576	15,601

As a result of the curtailment of the home build programme as detailed in note 7, the amount provided at 31st December 1996 is the full liability, with the exception of rolled over capital gains.

The Company has a deferred taxation asset amounting to £25,000 (1995: £nil).

16 Called up share capital

Authorised	1996 Number 000	1996 £000	1995 Number 000	1995 £000
Ordinary Shares of 25p each	220,000	55,000	170,000	42,500
Preference Shares of £1 each	20,000	20,000	20,000	20,000
	240,000	75,000	190,000	62,500

Allotted, called up and fully paid Ordinary Shares:

	Number 000	£000
At 1st January 1996	125,855	31,464
Issued on acquisition of Court Cavendish	42,885	10,721
Issued in respect of share option schemes	64	16
At 31st December 1996	168,804	42,201

16 Called up share capital (continued)

Options outstanding at 31st December 1996 (including options granted to Directors detailed on pages 34 and 35), under the Company's share option schemes were as follows:

Scheme	Number of shares	Exercise price	Period exercisable
Takare plc Executive Share Option Scheme (approved)	61,579	95 pence	March 1992 - March 1999
Takare plc Executive Share Option Scheme (unapproved)	22,282	95 pence	March 1992 - March 1999
Takare No. 1 Executive Share	177,363	129 pence	May 1993 - May 2000
Option Scheme (1990) (approved)	203,154	137 pence	April 1994 - April 2001
	606,481	167 pence	April 1995 - April 2002
	441,772	225 pence	April 1996 - April 2003
	638,831	256 pence	April 1997 - April 2004
	866,801	199 pence	April 1998 - April 2005
	514,947	148 pence	April 1999 - April 2006
	20,272	146 pence	April 1999 - April 2006
	29,278	146 pence	Nov 1999 - Nov 2006
Takare No. 2 Executive Share	289,135	148 pence	April 1999 - April 2003
Option Scheme (1990) (unapproved)	50,000	144.5 pence	Sept 1999 - Sept 2003
	1,490,050	144.5 pence	Oct 1999 - Oct 2003
Court Cavendish 1993 Executive	639,566	143 pence	July 1996 - July 2003
Share Option Scheme (approved)	118,127	136 pence	July 1997 - July 2004
	152,814	164 pence	July 1998 - July 2005
	657,880	132 pence	Aug 1999 - Aug 2006
			Dates granted
Takare plc Savings Related	446,183	144 pence	November 1992
Share Option Scheme	93,662	180 pence	September 1993
	217,994	178 pence	September 1994
	237,432	164 pence	September 1995
	932,670	111 pence	September 1996
Court Cavendish 1993 Savings Related	135,481	114 pence	July 1993
Share Option Scheme	12,898	109 pence	August 1994

On 6th June 1996 the Court Cavendish 1993 Executive Share Option Scheme was amended with the approval of the Inland Revenue to permit unapproved options also to be issued. Of the options issued in August 1996, 220,325 were unapproved.

Options granted under the savings related schemes are normally exercisable within a period of six months after the third or fifth anniversary, according to the bonus date, of the date of the related savings contract.

During the year the Company issued 64,393 shares at various subscription prices, pursuant to options exercised under the Company's share option schemes for a total consideration of £54,000.

All of the options set out above which are exercisable from 1999 were granted during the year.

Options granted under the Takare plc No. 1 Executive Share Option Scheme (1990) can only be exercised if the growth condition is satisfied. This requires that growth in earnings per share has exceeded growth in the Retail Price Index over any period of three consecutive years commencing not earlier than the date of the grant of the options.

Options granted under the Takare plc No. 2 Executive Share Option Scheme (1990) and the Takare plc No. 1 Executive Share Option Scheme (1990) in October and in November 1996 respectively, were granted subject to an additional performance condition. This requires that growth in earnings per share has exceeded growth in the Retail Price Index by not less than 6% over any period of three consecutive years commencing on a date which is not earlier than the date of grant of the options and following a financial year for which earnings per share is a positive number (with no intervening year for which earnings per share is zero or a negative number).

Following the merger with Court Cavendish becoming unconditional, offers were made to the holders of options in the Court Cavendish 1993 Executive Share Option Scheme and the Court Cavendish 1993 Saving Related Share Option Scheme to exchange their existing options over Court Cavendish Shares for new options over shares in the Company in the same proportion as the merger offer (i.e. 157 new for every 100 existing) at a total subscription price for new options equal to the total subscription price for existing options. Acceptances of the exchange offers are reflected above. As provided by the rules of the Court Cavendish 1993 Executive Share Option Scheme new options issued pursuant to the exchange offer were no longer subject to any growth or performance condition.

Notes to the Accounts

17 Reserves

	Share premium account £000	Merger reserve £000	Profit and loss account £000
Group			
At 1st January 1996	111,875	-	58,610
Shares issued during the year	38	51,033	-
Goodwill arising on acquisition (note 1)	-	(11,929)	-
Retained loss for the financial year	-	-	(9,840)
	111,913	39,104	48,770

	Share premium account £000	Profit and loss account £000
Company		
At 1st January 1996	111,875	32,212
Shares issued during the year	38	-
Retained loss for the financial year	-	(5,801)
	111,913	26,411

The Company made a loss for the financial year of £405,000 (1995 profit: £20,330,000).

The cumulative amount of goodwill written off on acquisition is £11,929,000 (1995: nil).

18 Reconciliation of operating profit to net cash inflow from operating activities

	1996 £000	1995 £000
Operating profit	21,285	21,547
Depreciation	8,174	6,465
Decrease in debtors	333	1,494
Increase in creditors	2,265	2,069
	32,057	31,575

19 Analysis of changes in financing during the year

	1996		1995	
	Share capital (including share premium) £000	Long-term loans £000	Share capital (including share premium) £000	Long-term loans £000
Opening balance	143,339	50,515	142,948	50,584
Repayment of loans	-	(80)	-	(69)
Loans drawn down	-	4,213	-	-
Shares issued for cash	54	-	391	-
Shares issued for non-cash consideration	10,721	-	-	-
Acquired loans	-	35,787	-	-
	154,114	90,435	143,339	50,515

20 Acquisitions

The fair value of the net assets acquired on the acquisition of Court Cavendish Group PLC, together with the respective consideration, is detailed in note 1 to the accounts.

During the period from acquisition to 31st December 1996, Court Cavendish Group PLC contributed £2,132,000 to net cash inflow from operating activities, paid £251,000 in respect of servicing of finance, incurred £2,217,000 on the purchase of fixed assets and raised £51,000 on the sale of fixed assets.

The net cash outflow on the acquisition of Court Cavendish Group PLC comprised:

	£000
Cash of acquired business	371
Expenses of acquisition	(2,302)
Net cash outflow	(1,931)

21 Analysis of net debt

	At 1st January 1996 £000	Cash flows £000	Acquisition £000	At 31st December 1996 £000
Cash in hand	-	2,818	-	**2,818**
Bank overdraft	(3,605)	(10,059)	-	**(13,664)**
	(3,605)	(7,241)	-	**(10,846)**
Debt due within one year	(74)	-	-	**(74)**
Debt due after one year	(50,515)	(4,133)	(35,787)	**(90,435)**
Total	(54,194)	(11,374)	(35,787)	**(101,355)**

22 Leases

Future minimum payments due in the next twelve months under land and buildings operating lease commitments are as follows:

	Group 1996 £000	1995 £000
Leases which expire:		
1 to 2 years	**33**	-
2 to 5 years	**662**	-
In more than 5 years' time	**965**	112
	1,660	112

23 Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiary undertakings, which at 31st December 1996 amounted to £23,524,000 (1995: £21,964,000).

Five year summary

	1992 £000	1993 £000	1994 £000	1995 £000	1996 £000
Profit and loss account					
Turnover	48,000	72,767	90,002	110,268	134,505
Operating profit	10.909	17,354	21,084	21,547	22,771*
Profit before tax	11,839	14,916	21,060	21,806	17,022
Taxation	(1,105)	(1,485)	(2,948)	(3,870)	(21,466)
Profit/(loss) after tax	10,734	13,431	18,112	17,936	(4,444)
Dividends	(1,609)	(2,381)	(2,885)	(3,270)	(5,396)
Retained profit/(loss)	9,125	11,050	15,227	14,666	(9,840)
*Before exceptional items					

	1992 £000	1993 £000	1994 £000	1995 £000	1996 £000
Summarised balance sheet					
Fixed assets	107,075	137,813	175,662	232,379	362,604
Assets under construction	31,131	34,521	48,781	39,069	20,406
	138,206	172,334	224,443	271,448	383,010
Net (liabilities)* (excluding cash and borrowings)	(8,373)	(11,001)	(10,587)	(15,305)	(39,667)
Net (borrowings)/cash	(37,840)	10,099	(26,964)	(54,194)	(101,355)
Shareholders' funds	91,993	171,432	186,892	201,949	241,988
*Includes deferred taxation					

	1992	1993	1994	1995	1996
Key statistics					
Earnings per share	11.5p	13.7p	14.5p	14.3p	8.8p*
Dividends per share	1.72p	2.07p	2.30p	2.60p	3.45p
Net assets per share	98.5p	136.8p	149.0p	160.5p	143.4p
Gearing	41.1%	-	14.4%	26.8%	41.9%
Beds in operation at period end	4,335	5,340	6,570	7,620	11,958
Beds under construction at period end	780	1,290	1,980	1,440	595
*Before exceptionals					

Notes

1 The figures have been restated to reflect the Rights Issue of new Ordinary Shares during 1993 and to take account of Financial Reporting Standard Number 3.

2 Two accounting changes were made in 1995 which significantly reduced reported profits in that and subsequent years. From 1st January 1995 freehold buildings are depreciated over 50 years. Prior to that date no depreciation was provided. Also with effect from 1st January 1995 interest on new nursing home developments is not capitalised beyond the date of registration. Previously interest had been capitalised for a maximum period of 3 months after the date of registration.

3 Following a decision in 1996 to curtail the new home building programme, it was decided to provide in full for deferred taxation. The 1996 tax charge includes £15.3 million in respect of unprovided deferred tax at 31st December 1995.

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of TC Group plc will be held at the Telford Moat House, Forgegate, Telford TF3 4NA at 12.30pm on 29th April 1997 for the following purposes:

1. To receive and consider the accounts for the year ended 31st December 1996 and the Directors' and Auditors' reports thereon
2. To declare a final dividend of 2.45 pence per ordinary share.
3. To re-elect Dr C B Patel as a Director.
4. To re-elect Mr A G Heywood as a Director.
5. To re-elect Mr I Kirkpatrick, Chairman of the Audit Committee and a member of the Remuneration Committee, as a Director.
6. To re-elect Mr A B M Good, a member of the Audit and Remuneration Committees, as a Director.
7. To re-elect Mr W D V Pegg, Chairman of the Remuneration Committee and a member of the Audit Committee, as a Director.
8. To re-appoint KPMG Audit Plc as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.

Special Business
To consider and if thought fit, pass the following resolutions as Special Resolutions:

9. **That:**
   (a) the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £12,799,006 provided that this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company and 29th July 1998 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 Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired;

   (b) the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities for cash pursuant to the authority conferred by paragraph (a) of this resolution as if Sub-section (l) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited:

   (1) to the allotment of equity securities in connection with an offer open for acceptance for a period fixed by the Directors to holders of ordinary shares 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 to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory) and

   (2) to the allotment otherwise than pursuant to paragraph (1) above of equity securities up to an aggregate nominal value of £2,110,049

   and shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 29th July 1998 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 an offer or agreement as if the power conferred hereby had not expired; and

   (c) words and expressions defined in or for the purposes of the Companies Act 1985 shall have the same meanings in this Resolution.

10. **That,** in accordance with Article 10(1) of the Articles of Association of the Company and Part V Chapter VII of the Companies Act 1985 ("the Act"), the Company be and is hereby generally and unconditionally authorised (pursuant to Section 166 of the said Act) to make one or more market purchases (as defined in Section 163 of the said Act) of ordinary shares of 25p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine PROVIDED THAT:

    (a) unless previously revoked or varied by the Company in general meeting, the authority hereby conferred shall expire on the earlier of twelve months after the passing of this resolution and the conclusion of the next Annual General Meeting of the Company;

    (b) the maximum aggregate nominal amount of ordinary shares hereby authorised to be purchased is £2,110,049 (representing approximately 5 per cent of the issued ordinary share capital);

    (c) the minimum price (exclusive of advance corporate tax and expenses) which may be paid for an ordinary share is 25p per share and the maximum price (exclusive of advance corporation tax and expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the middle market quotations of an ordinary share as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary share is purchased; and

    (d) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

11. **That** the name of the Company be changed from "TC Group plc" to "Care First Group plc".

Note:

(i) A member entitled to vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her/its behalf. A proxy need not be a member of the company. A form of proxy is enclosed with this Notice for use at the Meeting

(ii) To be valid, the instrument appointing a proxy (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority) must be deposited at or posted to the office of the Registrars of the Company, Lloyds Bank Plc, Lloyds Bank Registrars to be received not less than 48 hours before the time fixed for the Meeting. Completion and return of the form of proxy will not preclude shareholders from attending or voting at the meeting in person.

(iii) Copies of the registers of Directors' interests kept in accordance with Section 325 of the Companies Act 1985 will be available for inspection at the Registered Office of the Company on weekdays during normal business hours and at the place of the meeting from 15 minutes preceding it until its conclusion.

By Order of the Board
Eric Woodhead
Secretary

TC House
Whitechapel Way
Priorslee
Telford
Shropshire TF2 9SP

1st April 1997

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