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CareTech
Holdings PLC

Company number 4457287

Extraordinary
days **every**
day

Annual Report and
Accounts 2010

TUESDAY



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22/03/2011

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COMPANIES HOUSE

LEARNING DIFFICULTIES

Supporting people to find
their ideal life in a home
of their choice through a
diverse range of initiatives

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OUR VISION

As a leading provider of specialist
social care services we aim to
provide better lives for people
with severe learning difficulties,
challenging behaviours and
mental health issues, helping them
discover greater independence
and an improved quality of life

We maintain exceptional standards
and retain our focus on high-quality
individual service needs making sure
people experience extraordinary
days, every day

Market overview

The UK social care market remains buoyant as demographic features, market consolidation and an upward trend for outsourcing make a positive impact on independent sector providers

Market size and trends

ADULT LEARNING DIFFICULTY MARKET

Market size

- Learning difficulty (LD) is a life-long condition
- 1.4m people in the UK have a learning difficulty
- 185 000 of these will never be able to live independently
- 40% of people with LD also have a mental illness
- UK Market for adult residential care is worth £3.2bn
- Severe learning difficulty market growing by 5.5% per annum
- This is a highly fragmented market in which CareTech has less than a 2% share

Trends

- Social services have an 'Absolute Duty' in law to provide (or purchase) services
- Trend is away from residential care for all but the most complex people
- Government policy commitment towards direct purchasing of services by service users
- Family carers often favour residential solutions
- Complex regulatory environment with 'star ratings' being withdrawn
- Significant dual diagnosis market
- Consolidation of providers and occupancy/price trade-offs characterise the market dynamic

FAMILIES AND YOUNG PEOPLE MARKET

Market size

- Across England alone this market grew by 5.7% last year
- 64 000 children looked after by child support services in England
- 74% of these children are in foster care costing £1.1bn per annum
- Overall value of children's market in England is estimated at £6.7bn
- Residential children's services are estimated to be worth £995m in England

Trends

- Rising trend of looked after children
- Reducing trend of child residential placements
- Rising trend for independent sector children's services
- Rising trend for independent sector special education
- Fostering is the preferred option for most looked after children

MENTAL HEALTH SERVICES MARKET

Market size

- 1 in 4 people in the UK will have a Mental Health (MH) problem
- Total cost of care in England is £12bn
- Total NHS/LA spend on mental health is £5bn
- Independent care homes for mental illness cost £685m (England)
- Independent non-residential care for mental illness costs £281m (England)

Trends

- Future funding is secured by the high profile of mental illness and its political significance
 - Commercial partnerships support discharge
 - 70% of prisoners have MH problems – Bradley Report
 - Reed Report encourages community care
-

CareTech today

The demand for greater efficiency in social care will be an increasingly important factor for independent providers. Alongside demand-led service development, this pressure will drive consolidation and create market opportunity

Our position

ADULT LEARNING DIFFICULTIES

1 442 adult LD capacity

Residential homes

Independent and group supported living

Self funded care

Day opportunity programmes

FAMILIES AND YOUNG PEOPLE

111 Special needs children placements

Educational facilities

182 Fostering placements

Family assessment centre

MENTAL HEALTH

74 mental health users

Many more with a dual diagnosis

Four focused services

One registered open hospital

Supported living arrangements

Care Pathway

LEARNING DIFFICULTIES

Residential care
Independent supported living
Community support services

1,442
Capacity

FAMILIES AND YOUNG PEOPLE

Residential care of children
Family assessment
Fostering

293
Capacity

MENTAL HEALTH

Residential care
Low secure and step down
Independent supported living
Community outreach

74*
Capacity

* In practice we have a significant number of users with dual diagnosis of PLD with mental illness

Delivering consistent growth

The 2010 results demonstrate our ability to deliver further growth, against consistent strategic objectives

Our business

LEARNING DIFFICULTIES	FAMILIES AND YOUNG PEOPLE	MENTAL HEALTH
With a national reputation for excellence, CareTech's care and support leads the way for quality, innovation and range of provision. We offer a pathway for our users to enjoy an extraordinary life with the support they want	A comprehensive programme offering skilled assessment, outstanding residential solutions and caring foster parents. CareTech offers a comprehensive programme with real quality of service	Helping people back to normal life after a mental illness and supporting those for whom recovery takes much longer. CareTech's thoughtful pathway approach is effective and principled

Highlights

Revenue increased by 7.5% to £89.7m (2009: £83.4m) £89.7m up 7.5%	EBITDA ⁽ⁱ⁾ increased 9.1% to £24.8m (2009: £22.8m) £24.8m up 9.1%
Profit before tax ⁽ⁱⁱ⁾ increased by 20.3% to £18.4m (2009: £15.3m) £18.4m up 20.3%	Diluted earnings per share ⁽ⁱⁱⁱ⁾ increased by 12.6% to 30.6p (2009: 27.2p) 30.6p up 12.6%
Cash inflows from operating activities, before adjustments, were £22.3m (2009: £19.8m) £22.3m up 12.6%	Full year dividend of 5.50p (2009: 4.70p) per share, resulting in full-year dividend growth of 17.0% 5.50p up 17.0%
Overall capacity increased by 379 to 1,809 places 1,809 capacity	Capacity increase of 278 places from six strategic acquisitions announced during the year 6 strategic acquisitions

Statutory highlights

EBITDA ⁽ⁱⁱⁱ⁾ reduced 6.2% to £19.8m (2009: £21.1m) £19.8m down 6.2%	Profit before tax increased by 11.1% to £7.6m (2009: £6.8m) £7.6m up 11.1%
Diluted earnings per share increased by 27.0% to 13.6p (2009: 10.7p) 13.6p up 27.0%	Cash inflows from operating activities were £17.9m (2009: £19.8m) £17.9m down 9.6%

(i) EBITDA is operating profit stated before depreciation, share-based payments charge, amortisation of intangible assets and adjustments (explained in note 4)

(ii) Profit before tax and diluted earnings per share are stated before amortisation of intangible assets and adjustments (explained in note 4) and

(iii) EBITDA is operating profit stated before depreciation, share-based payments charge and amortisation of intangible assets. The statutory highlights EBITDA and cash inflows are down due to the effect of adjustments (explained in note 4)

Leading the way

We are delighted, during our fifth year as a public Company, to continue to report strong growth

Farouq Sheikh
Chairman

I am especially pleased that in the last 5 years since IPO we have increased

- Capacity from 423 to 1,809,
- Revenue from £22.5m to £89.7m
- EBITDA from £2.4m to £24.8m
- Diluted EPS from 4.1p to 30.6p

During this period we have established a strong presence in the social care market having developed a well-defined range of services offering 'care pathways' across a number of geographical areas. Our passionate and committed staff have played a key role in achieving this whilst maintaining the highest standards of care for our service users. I am thankful to each and every member of staff for their valued contribution over this period.

Results

Revenue of £89.7m (2009: £83.4m) for the year to 30 September 2010 represented growth of 8% and generated EBITDA growth of 9% to £24.8m (2009: £22.8m).

The 20% growth in profit before tax to £18.4m (2009: £15.3m) incorporates both the strong EBITDA growth and the favourable year-on-year net financial expenses arising from an effective capital structure including attractive banking arrangements negotiated during the year.

In March 2010 we raised £15m before expenses by a placing of 3.75m new ordinary shares. Reflecting the increased number of shares in issue, our diluted earnings per share grew by 13% to 30.6p (2009: 27.2p).

Cash inflows from operating activities before tax of £22.3m (2009: £19.8m) were 13% higher than the corresponding year further demonstrating the quality of the Group's income stream. Net debt at 30 September 2010 of £113.3m (2009: £93.4m) includes consideration for acquisitions announced during the second half of the year and further investment in the organic development of the Group. Our robust balance sheet is supported by freehold properties now estimated at a value of £228m and bank facilities of £165m.

Dividend

The Board has proposed a final dividend of 3.66p (2009: 3.10p) per share bringing the total dividend for the year to 5.50p (2009: 4.70p), being growth of 17%. The final dividend will be paid, subject to shareholder approval, on 18 February 2011 to Shareholders on the register of members on 14 January 2011. Our policy is to increase the total dividend each year broadly in line with the increase in diluted earnings per share.

Strategy

During our 5 years as a public company we have successfully delivered against a consistent strategy. Our strategy remains the same: to continue to develop a range of specialist social care services and to extend the geographical presence of the Group.

Whilst local authorities are under pressure to reduce public spending, the vulnerability of the people who we support together with the strong demographic drivers of our chosen markets continues to provide a highly sustainable and growing market for the Group's care pathway range of services.

We have established ourselves as a leading provider of specialist social care solutions and yet have less than a 2% share of the markets in which we operate. Through a strategy of selective acquisitions and investment in organic growth we continue to consolidate and grow our market share.

Since putting in place approximately £85m of available funds in April 2010 through the £15m share placing and by extending the Group's bank facility to £165m, we have announced six strategic acquisitions which have increased capacity by 278 places. Further details of these acquisitions are provided in the Chief Executive's Statement and Operating Review. Four of these acquisitions have extended our care pathway range of children's services into the specialisms of fostering and emotional behavioural disorders (EBD), whilst the acquisition of Uplands extended our specialist mental health capacity and St Michael's expanded the geographical coverage of our adult supporting living services into North London.

Capacity has also increased by 101 places during the year through organic initiatives including small bolt-on acquisitions. We are pleased to report that our standards of care quality continue to support high levels of occupancy.

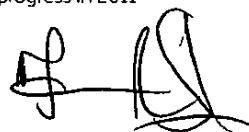
Our people

Due to the expansion of the Group during the year and its positioning for further growth, we are delighted to welcome a significant number of new colleagues. I would like to thank all of our employees for their commitment, dedication and hard work in delivering outstanding services every day and their overall contribution to Group performance during the year.

Outlook and prospects

The 2010 results demonstrate our ability to deliver further growth against consistent strategic objectives. Our extended care pathway range of services, young services users, high-quality provision and existing growth capital provide the Group with a strong platform going forward.

With a significant pipeline of further acquisition opportunities complementing our continued focus on organic growth, we are in a favourable competitive position to support local authorities and services users with an effective and growing range of services. I look forward with confidence to further progress in 2011.



Farouq Sheikh
Chairman
10 January 2011

Five years of strong growth

In the last 5 years we have achieved the following

Capacity 2010

1,809 places

2005 423 places

Revenue 2010

£89.7m

2005 £22.5m

EBITDA 2010

£24.8m

2005 £2.4m

Diluted EPS 2010

30.6p

2005 4.1p

- Extended care pathways into fostering family assessment emotional and behavioural disorder and mental health hospital care
- Expanded geographical reach
- Invested in the acquisition and development infrastructure
- Further improved quality ratings

FAMILIES AND
YOUNG PEOPLE

Branas Isaf

Therapeutic residential centres with schools enabling young people to rebuild their lives

A strong position for growth

We believe that the progress made by our Group during the year provides us with a range of specialist services which are delivered from an efficient and effective cost base, placing us in a favourable market position

Haroon Sheikh
Chief Executive Officer

Overview of progress

During the year to 30 September 2010 we have continued to deliver growth both organically and by acquisition whilst at the same time developing an operational platform which we are confident will support our strategy

Capacity during the year was increased by 379 such that we are able to support up to 1809 vulnerable people. Even with this 27% increase in capacity we were still able to report that occupancy levels remained high at around 86% including facilities being developed and between 92% and 93% for established services

Organic initiatives including small bolt-on acquisitions contributed 101 places towards the Group's overall capacity increase during the financial year. Regional expansion in Yorkshire was strong and supported living services continued to be developed across the Group in response to market demand. We were also pleased to purchase a number of homes in North Wales. To help attract placements we continue to invest in our substantial freehold property portfolio including reconfiguration projects where the nature of service is modified in order to support the changing needs of service users and/or their respective placing commissioners

During the second half of the 2010 financial year we announced six acquisitions which increased capacity by 278 places. Further details of these are provided later in my review

Our internal management structure has been further developed. We have established an acquisitions and development team during the year and attracted a number of experienced sector specialists to our operational team. In addition we have invested further in our support functions including finance, human resources, estates management and quality. A project to provide an integrated software solution across the Group is also in progress

Local authorities continue to demand high-quality services at competitive fee rates and we believe that the progress made by our Group during the year provides us with a range of specialist services which are delivered from an efficient and effective cost base, placing us in a favourable market position

Strategic acquisitions

Acquisitions are undertaken in line with our strategy of extending the care pathway range of services and expanding the geographical reach of the Group. During the second half of our financial year we announced six acquisitions for a combined consideration of £29.6m including deferred and contingent consideration of £5.5m which together are expected to be accretive to earnings in the first full year of operation. Some of the key attractions of each acquisition are as follows

Greenfields Care Group Ltd (Greenfields) specialises in delivering positive outcomes for children with Emotional and Behavioural Disorders (EBD). Established in 2000 Greenfields has a capacity of 17 beds across 7 homes in South East Wales and around Bristol. It supports and educates children aged between 11 and 18 years old. We see the acquisition as a high-quality entry platform for CareTech to support local authorities with EBD services as part of our care pathway solution for children's services

St Michael's Support & Care Ltd (St Michael's) is a good-quality supported living business for people with learning difficulties and mental health requirements. With a capacity of 38 beds, the business has established a strong reputation in North London and extends the care pathway range of services that CareTech is able to offer in this geographical area

Outlook Fostering Services Ltd (Outlook) was established in 2002 and has continued to grow its market share by providing an outsourcing solution to local authorities with a quality rating of "Outstanding". Outlook's strong pipeline of foster carers has been maintained through effective recruitment and training programmes. On acquisition 85 children, aged from birth to 18 years old, were cared for by Outlook foster parents for funding authorities located mainly in London and the Home Counties. We are delighted to have found such a strong partner to support CareTech's entry into this highly fragmented and fast growing area of social care provision and we look forward to the complementary benefits of offering a fostering solution alongside our existing children's residential and family assessment services

Park Foster Care (Park) is a high-quality provider of fostering services with well-established relationships across a number of local authorities. Based in Nantwich, Cheshire, Park joined the Group with 87 child placements and is an attractive extension to the geographical coverage of CareTech's fostering services

Delivering on our strategy

A well-balanced
complementary range
of services delivering
strong professional and
commercial outcomes

Develop a range of solutions within specialist areas of social care

- Individually tailored and innovative services
- Mental health provision brings clinical support to people with complex needs
- Delivering a pathway back to community living for people who have been mentally ill
- Care pathways for children embrace assessment through highly specialised children's homes and comprehensive foster care provision

Increase capacity through organic growth and acquisition

- Acquisitions as a platform for organic development
- New operating areas
- Stimulating and exciting staff teams drive organic initiatives

A partner of choice through strong stakeholder relationships

- Listening and responding to our partners
- Delivering the right services at the right quality and price
- Developing innovative solutions that create the right outcomes for users of our services

FAMILIES AND YOUNG PEOPLE

Foster Care

Nothing beats family life
and the fostering solution
is the best option for most
looked after children

Branas Isaf has the capacity to support 21 children with complex Emotional and Behavioural Disorders (EBD). The services provided from freehold properties based in North Wales further extend the Group's range of children's EBD solutions and their specialist nature attracts local authority placements from a wide geographical reach.

Uplands is a community-based freehold mental health hospital in Hampshire with a capacity of 30. The acquisition of Uplands provides exciting opportunities for the Group to extend its specialist mental health capability and develop complementary services from a well-established platform.

Care pathway range of services

All of our activities are as a provider of specialist social care. A key aspect of our strategy is to provide a well-defined yet broad range of specialist services to support commissioners tailored for the care and desired outcomes of individual service users. The range of services offered by the Group to meet market demand is referred to as a care pathway. We have care pathways in the following specialities:

- (i) Adult learning difficulties including residential care homes, independent supported living and community support services
- (ii) Families and young people including residential care facilities for learning difficulties and emotional behavioural disorders ("EBD"), foster care services and family assessment
- (iii) Mental health including a community based hospital, residential care homes, independent support living and community outreach

Principal risks

The Group has policies and processes in place to identify, mitigate and manage operational risks.

The following summarises the key issues which could have a material impact on our reputation, operations or financial performance:

- Delivering high standards of care
- Compliance with regulations, legislation or duties of care
- Managing our people effectively including attracting, retaining and developing talent
- Significant changes in government policy or legislation that impact market opportunities or operating performance
- Managing profit margins if movements in operating costs are detrimental relative to changes in fee rates
- Maintaining occupancy levels
- Outbreak of pandemic illness that severely affects our staffing or occupancy levels
- Funding to meet current and future business requirements

Risk management

We have a strong focus on the quality of services that we provide with our reporting and management structure being complemented by a comprehensive internal quality audit function working under the leadership of our Director of Quality and Performance.

Many of our services are regulated by Ofsted and the Care Quality Commission (CQC). Overall, 87% of our service users are looked after in good or excellent-rated facilities.

Across the Group we have a well-defined management structure with clear principles of delegation and authority supported by written policies and procedures. At the same time we encourage a culture of open communication with both internal and external stakeholders together with "whistleblowing" facilities.

We monitor and regularly review key performance indicators as indicated below:

Led by the Director of Human Resources, our managers have a clear focus on selective recruitment and staff learning and development requirements – supported by policies and practices to align staff skills with CareTech's current and future needs.

Insurance policies are maintained and the adequacy of these are reviewed at regular intervals.

Large and growing market

Across the UK it is estimated that there are 14m adults with learning difficulties ("LD") and/or mental health ("MH") conditions, of which around 185,000 need care and support costing a total of £74bn. The residential adult LD component of this market is worth £3.2bn and cares for 54,000 individuals whilst the residential MH element amounts to £1.3bn for 29,000 people. The remaining £2.9bn of care is provided to adults who require supported living, community outreach services etc.

The adult LD and MH market is not only large, as explained above, but also growing by approximately 5.5% per annum due to advances in medical science and demographic profiles.

Adult LD and MH market demand is satisfied by a highly fragmented profile of providers. Approximately 33% of provision is by the "not-for-profit" sector and about 20% is provided for by local authorities themselves and may present opportunities for further outsourcing. The remaining 47% of the adult market is satisfied by the independent sector of which CareTech is a part. 70% of independent providers have three facilities or less and the largest six together have less than 10% market share. CareTech has less than a 2% share of the overall adult market and is one of the largest providers.

Range of complementary services

People with complex needs require a diverse range of support and a clear pathway to the outcomes they desire

Uplands

An open hospital that supports people on the pathway back to community life. The resource for a diverse range of community services

Transition

All people have key change points in their lives and our care pathway approach reflects this across all our user groups. We believe that a focus on transition enables our users to make a success of the changes they need to make.

Community support

- We aim to help people live an ordinary life in a home of their own. For many people this also means a continuing community support programme.

Independent or group supported living

- An ideal solution for those who need a higher level of support but prefer a place of their own. Suitable for people with learning difficulties, mental health service users and young people who have left the care system.

Residential homes

- Valuable and important resources for people who cannot or choose not to live independently. Highly regulated, outward looking and with highly personalised support the best residential homes offer an outstanding solution for many.

Nursing homes

- Residential homes with the benefit of 24-hour nurse support provide a solution for people requiring help with their physical health in addition to social care.

Child services

- Offering support that ranges from family assessment through highly specialised residential homes and comprehensive foster care. Our adult services complement this range of provision with exceptional transition and leaving care support.

The market for specialist children's services is also large and highly fragmented. Across England alone there are 64 000 children looked after and this market grew by 5.7% during the past year. 74% (47 200 places) of these children are in foster care which costs £1.1bn per annum in total. CareTech has less than a 0.5% market share and local authorities themselves facilitate 61% of the country's fostering services.

Residential children's services provide for about 8 170 children in England and this market has grown by 4.3% during the past year. CareTech have a market share of less than 2%.

Our chosen markets are large and growing yet highly fragmented. We are a leading player with less than 2% market share across the care pathway range of services. We see considerable opportunities to further consolidate the market in which we operate.

Strategy, objectives and key performance indicators ("KPIs")

Our strategy of extending the care pathway range of specialist social services across an expanding geographical reach is complemented by a number of short, medium and long-term objectives.

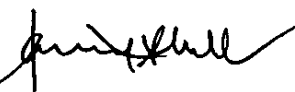
The objectives of CareTech include gaining market share by delivering high-quality services. We regard our reputation and relationships with service users, social workers, commissioners, staff and the community as critical and take our responsibilities in this respect very seriously. Attracting, retaining and developing our staff is an important objective as their performance underpins service delivery performance and strategic growth. Also, to provide and support further funding for expansion and investment we are continually focused on operating efficiently in the interest of all of our stakeholders.

To monitor and measure the Group's performance against its objectives a number of KPIs are focused on, including the following:

- Quality ratings for individual services
- Occupancy movements
- Staffing levels and headcount movements
- Care staff costs relative to service income
- EBITDA
- Profit before tax
- Earnings per share
- Net debt
- Capacity growth
- Investment capital applied as a multiple of EBITDA growth

Outlook

Economic conditions remain complex and the pressures on public spending present both challenges and opportunities in our market. As one of the largest and strongest providers of services in our sector, with a robust balance sheet and effective business model, we are well positioned to gain market share through both organic developments and by acquisition. I look forward to the year ahead with confidence.



Haroon Sheikh
Chief Executive Officer
10 January 2011

Growing our market share

CareTech has a £9bn addressable market characterised by fragmentation and a low level of corporate penetration

In-house regulatory team

Comprising social care professionals with years of regulatory experience the in-house quality team inspects trains and supports the frontline services Senior managers also visit every service monthly and prepare quality reports

Staff development

A mix of training courses on-line learning and in-depth supervision ensure that our operational teams stay ahead of the pack

Service user engagement

We listen to our service users and respond to what they and their families' tell us We learn from regular consultation meetings surveys and reviews

Formal regulation

Services are routinely inspected by the Care Quality Commission or Ofsted (for child services) In addition most social services departments have their own professional quality audit teams who monitor what we do

LEARNING DIFFICULTIES

Independent Supported Living

Many people even those with complex needs aspire to live independently Using personal budgets and individual support programmes CareTech can make this dream a success

Expertise

CareTech has an established reputation for excellence in service provision with the expertise to match

From Board level to the front line CareTech has managers and staff professionally qualified within the areas of expertise required to be a leading-edge, safe and innovative provider. Our expertise includes qualified social workers, therapist and health care professionals with extensive experience in child care, mental health and learning difficulties.

Already a company with good strategic and operational expertise, CareTech has now evolved into a group with quite inspirational leadership.

Home-grown talent, shrewd appointments and wise acquisitions have provided the Company with expertise in learning difficulties, child care, fostering and mental health. In addition the Group enjoys the support of professional and clinical colleagues from a wide range of experts from social work and psychology in addition to a number of very practical therapies.

Our development team has benefited from the recruitment of individuals with a national reputation on the sales side and this has advanced our ability to make 'right price' and sensible acquisitions across the UK.

We are recognised as expert providers and increasingly invited to participate in round-table discussions where social policy in our field is discussed and developed.

CareTech has also developed new ways of solving service delivery problems. Our model for early onset dementia remains the benchmark for other providers while our transition services and unique style of independent living have been widely copied. Innovations in family assessment and the support of young people with behavioural disorder are currently enjoying considerable interest among commissioners.

Joan Bone
Business Development Manager

“I like the fact that Directors take such a lively interest in development and prefer action to endless meetings! There is no shortage of expertise among Directors but they are still good at listening to what people like me advise them

Maggie Hounslow
Quality Performance Manager

“The Chief Executive is uncompromising about the quality of our services and really pushes us to learn from the occasional mistake. For me, CareTech is a very committed employer

John Greensill
Business Relationship Manager

“I first worked with people who have a learning difficulty in 1974. Since then I have worked for the NHS, Local Authorities and for over 10 years in the independent care sector. Most recently I was the Head of Service in a joint health and council service with a budget of £42 million and supporting over 2000 disabled people

LEARNING DIFFICULTIES

Resource Centres

Opportunities for life equipping people with the skills to grab the independence they want in small friendly local centres

Jackie White
Home Manager

// I have worked in CareTech for several years and had the opportunity to move up the ladder internally rather than just by changing jobs. I get fantastic satisfaction from my role and feel proud of my service.

Tom Grimmitt
Supervising Social Worker

// We are new to the CareTech family and I have to say that everyone in our fostering group has been made to feel welcome. We like the CareTech style and have been impressed by the in-depth knowledge and genuine interest shown by Directors. They are also keen to listen and learn.

Being an integral part of the community

During the year we have continued to strive for long-lasting improvements in our services in a way that is consistent with the interests and concerns of our stakeholder community. As always, the driving force underpinning CareTech's whole operation continues to be the provision of the highest quality of care to our service users.

We care about our service users

They are the reason for our existence and satisfying their needs remains our key objective.

As our organisation grows, we strive to maintain a culture which never forgets the important relationship we have with our service users. We seek to nurture these relationships and see them as partnerships of mutual interest and respect, with our person-centred approach ensuring service user interests are safeguarded and vulnerabilities minimised.

The further expansion of our Care Pathway strategy seeks to provide our service users with "whole of life" solutions to their needs, maximising independence where possible by encouraging education, promoting choice, being proactive with family relations, providing employment where feasible and nurturing personal ambition where helpful.

We are determined to preserve the dignity of those we care for and fully support government initiatives to this end. We see making each day as fulfilled as possible for our service users is a vital ingredient to their, and our, success.

We care about the environment

We continually strive to maximise environmental standards in all areas of our organisation. Energy costs are now closely scrutinised centrally and with the installation of smart meters being rolled out across our services we are seeking to encourage more efficient consumption of energy of course, without compromising service user care in any way.

Clinical waste management has an environmental impact and we are constantly focused on ways to make this more effective whilst still adhering to statutory requirements.

We continue to aim for minimal waste production and waste-free processes. Encouraging the involvement of our workforce in seeking new ways to "be green" is important and we are making progress in reducing our carbon footprint in all commercial areas including promoting recycling initiatives, developing a carbon offset scheme for paper usage, using public transport where feasible and striving for energy efficiency.

We care about our staff

We remain committed to ensuring employees share in the success of the Group and fully appreciate that Group performance is affected by the relationship we have with them.

Sustaining the retention and development of employees is also critical to our continued success and we remain of the belief that fostering a positive workplace culture is the best way for our employees to thrive. Supporting them with regular supervision, training and clear career development programmes promotes staff continuity and leads to improved standards of care quality.

Equal opportunity for all remains at the heart of our recruitment policies and the diversity of our workforce bears

this out. We value our staff at all levels and work closely with them through our robust human resources department to foster consultation in all matters, ensure fair pay for all, maximise conditions of service and facilitate flexible working where feasible.

We continue to foster inclusivity and have regular newsletter publications, including newly developed weekly briefs providing news from the services in a concise, easy-to-read format, as well as regular staff surveys and team briefings. Each year, awards are distributed by Senior Management in recognition of those services with outstanding performance.

We have a team of in-house training staff delivering courses on all relevant subjects enabling our workforce to gain the skills, knowledge and confidence to provide the care and support to our service users on a daily basis.

Our sharesave share option scheme continues to offer new invitations regularly and is available to all our employees. This participation, along with regular executive share option awards, contributes to the fulfilment of our desire to reward staff loyalty, diligence and effort.

We care about quality and safety

As a Group, our aim is to provide an injury-free working environment for service users, staff and visitors. We value the wellbeing of all stakeholders and strive to develop policies to this end.

Maintaining workplace infrastructures is a core objective and sustained investment in IT, furniture, facilities and equipment enable working environments, be they operational or administrative, to be safe and productive.

Regulation is vigorously applied with routine and regular inspections being made by the Care Quality Commission (CQC) and Ofsted. We continue to resource our own highly experienced internal quality team which undertakes a programme of regular inspection and assessment and gives constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice and procedures are maintained.

We care about our communities

Doing business the right way is of fundamental importance to us. A successful business needs to operate in healthy, thriving communities and needs to be seen as a good neighbour to those communities. We have direct involvement in a variety of community-based programmes further improving our service reputation and helping to foster a strengthened relationship with local authorities.

We strive to identify the real value of our organisation beyond its bottom line and focusing on non-financial values such as reputation, employee commitment and service user fulfilment as well as the "numbers" helps towards this.

Building strong partnerships

Partnerships are valued more than ever during a period when financial resources are tight. We cannot compromise on outcomes but open partnerships drive value for commissioners.

Service users and their families

Increasingly, users of our services are encouraged to take charge of their own service commissioning. We welcome this and work hard to ensure that we broker the right support at a price that represents outstanding value.

Commissioners and care managers

Ensuring that there is a good range of provision, able to deliver support in the right way to people in their locality. Commissioning and care manager partners drive the way we operate in each of our regions.

Our frontline colleagues

Weekly team briefing, information cascades, regular supervision and an ambitious staff development programme complement the regular senior manager "walk about" events that drives a whole team approach.

LEARNING DIFFICULTIES

Prestwood

Offering a therapeutic residential environment in North Wales for people with complex learning difficulties and mental health issues.

Consistent strategy

The Group is in a strong position to continue as a leading provider of high-quality specialist social care services in a fragmented, large and growing market

David Pugh
Group Finance Director

Overview

The Group has made considerable progress during the year. In March 2010 we raised £15m before expenses by placing 375m ordinary shares and in April 2010 enhanced banking arrangements were announced following the negotiation of a £165m facility on attractive terms. Together with our highly visible stream of operating cash flow the Group was extremely well positioned to make strategic acquisitions and gain market share against a background of challenging economic conditions. During the second half of our financial year we were delighted to announce six strategic acquisitions which extended our care pathway range of services and expanded the Group's geographical coverage

Income statement

The income statement before adjustments for the year is summarised below

	2010 £m	2009 £m	Growth
Revenue	89.7	83.4	7.5%
Gross profit	37.4	33.6	
Administrative expenses	(12.6)	(10.8)	
EBITDA	24.8	22.8	9.1%
EBITDA margin	27.7%	27.3%	
Depreciation	(2.5)	(2.2)	
Share-based payments charge	(0.2)	(0.2)	
Operating profit	22.1	20.4	8.4%
Net financial expenses	(3.7)	(5.1)	
Profit before tax	18.4	15.3	20.3%
Taxation	(3.7)	(3.1)	
Effective tax rate	20.0%	20.3%	
Profit for the year	14.7	12.2	
Weighted average number of diluted shares	48.1	44.9	(7.2)%
Diluted earnings per share	30.57p	27.15p	12.6%
Full year dividend per share	5.50p	4.70p	17.0%

Revenue

Revenue of £89.7m (2009: £83.4m) was 7.5% higher than in 2009. Excluding the revenue in both years for Lyndhurst (which was acquired in 2009) and that generated by the six acquisitions announced during 2010, revenue grew by 2.3%.

In our established services we continued to experience high levels of occupancy and reported just over 92% occupancy at 30 September 2010. When blended with facilities under development the overall occupancy level during the second

half of the year and at 30 September 2010 was just over 86% of capacity. With local authority budget being under pressure, most of our revenue growth was delivered from increases in the volume of occupancy.

The Group's revenue profile is strong. We currently have placements with 164 funding organisations including local authorities and primary care trusts and our largest ten relationships account for approximately 35% of total revenue. The average age of our service users is 38 years old and this, together with the quality of our facilities, underpins high levels of visibility for revenue and operating cash flow.

As explained in the Chief Executive's Statement and Operating Review, we have extended our care pathway range of services during the financial year. Adult learning difficulty services now contribute 8.6% of Group revenue including community and supported living services. Four of the six acquisitions announced during 2010 are family and young people services which together with organic provision have contributed 12% of total Group revenue. Mental health provision represented 2% of our care pathway range of integrated services.

EBITDA

Excluding all acquisitions made during both 2009 and 2010 financial years, the EBITDA margin was broadly the same at around 27% of revenue. Increased occupancy delivered overall growth in gross profit whilst the effective control of care costs enabled margins to be maintained.

Including acquisitions, EBITDA grew by 9.1% to £24.8m (2009: £22.8m). Fostering services do not require high levels of organic capital investment and operate on lower profit margins compared to some of the other care pathway solutions. As the number of children looked after in foster care continues to grow, following the acquisitions of Outlook and Park, there may be a consequential effect on Group margins. However, the remaining four acquisitions announced during 2010 enhanced the overall EBITDA margin of 27.7% (2009: 27.3%).

Administrative expenses, before depreciation and share-based payments charge, of £12.6m (2009: £10.8m) increased by £1.8m during the year and represent 14% of Group revenue. Property rental costs of £5.3m are included within these administrative expenses and are 6% of revenue. We continue to invest in our operating and management structures in order to facilitate further growth.

Industry leader

Leading the market

CareTech's managers have pioneered new approaches to care and developed innovative solutions that deliver first-rate outcomes

Early onset dementia

Dementia is a significant issue for people with learning difficulties. CareTech pioneered a specialist model of care, winning many friends and delivering fantastic results.

Independent Supported Living

An early adopter of this approach, CareTech has developed a model that enables us to support people with very complex issues across mental health and learning difficulties.

Residential care

Learning from our service users and commissioners we have developed a residential model that draws on the best of community supported living and delivers outstanding value.

FAMILIES AND YOUNG PEOPLE

Greenfields

Young people at Greenfields have needs that more traditional approaches do not meet. They require the resources, skills and experience of a service which provides a nurturing, fun-filled living environment with the added advantages of stability, structure, safety and unconditional regard.

Operating profit and profit before tax

A higher depreciation charge of £2.5m (2009: £2.2m) reflected ongoing and additional investment in both our substantial portfolio of freehold properties and infrastructure including motor vehicles and information technology. Following this charge and share-based payments, operating profit grew by 84% to £22.1m (2009: £20.4m).

Net financial expenses of £3.7m (2009: £5.1m) were lower than the previous year mainly due to LIBOR rates being significantly higher in the corresponding period. In April 2010 we established effective hedging instruments alongside our enhanced bank facilities to limit the Group's exposure to movements in LIBOR. Currently we have in place a LIBOR cap of 1.80% rising to 2.75% over the remaining term of our bank facility expiring in April 2013 on a notional amount of £55m. With attractive bank arrangements in place we are well positioned to fund our income stream at an effective overall cost of capital.

Profit before tax of £18.4m (2009: £15.3m) has grown by 20.3%.

Taxation and diluted earnings per share

The effective tax rate continues at 20% and reflects management's expectations of future capital investment relative to available capital allowances.

In March 2010 we increased our shares in issue by 8.2% through a placing of 3.75m ordinary shares.

With a greater average number of shares in issue, we are pleased to report growth in diluted earnings per share of 12.6% to 30.57p (2009: 27.15p) per share.

Dividends

CareTech's policy is to increase the total dividend each year broadly in line with the growth in earnings per share before adjustments. The Board has proposed a final dividend of 3.66p (2009: 3.10p) per share bringing the total dividend for the year to 5.50p (2009: 4.70p), a growth of 17%. Dividend cover for 2010 based upon diluted earnings per share before adjustments was 5.6 times (2009: 5.8 times).

Adjustments

As more fully explained in note 4 to the financial statements, the Directors have separately disclosed a number of adjustments on the face of the income statement. The adjustments include similar matters to those separately disclosed in previous years as significant items, together with acquisition and development related items. IFRS 3 (as revised) has been adopted such that costs associated with acquisitions have been charged to the income statement; these are included within adjustments.

Cash flow and net debt

The cash flow statement and movement in net debt for the year is summarised below.

	2010 £m	2009 £m
EBITDA before adjustments	24.8	22.8
Increase in working capital before adjustments	(2.5)	(3.0)
Cash inflows from operating activities	22.3	19.8
Tax received/paid	0.2	(2.2)
Interest paid	(3.7)	(4.1)
Dividends paid	(2.3)	(1.9)
Proceeds from the issue of shares	14.6	0.3
Acquisitions and capital expenditure	(42.3)	(18.4)
	(11.2)	(6.5)
Adjustments	(8.6)	(1.6)
	(19.8)	(8.1)
Opening net debt	(93.4)	(85.3)
Closing net debt	(113.2)	(93.4)

Net debt at 30 September 2010 of £113.2m (2009: £93.4m) has increased by £19.8m during the financial year. We raised £14.6m through a share placing and invested £42.3m in acquisitions and capital improvements during the year.

Adjustments highlighted earlier within the income statement had a cash outflow effect of £8.6m. The payment of acquisition and development related costs amounted to £4.5m and settlements arising from ineffective hedging arrangements contributed a cash outflow of £3.0m (2009: £1.6m). Also included in adjustments is a £1.1m movement in respect of bank facility arrangement fees.

Excluding the share placing proceeds, adjustments, acquisitions and capital expenditure referred to above, the Group generated net surplus funds of £16.5m (2009: £11.6m) which demonstrates the high quality of our income stream.

Cash inflows from operating activities

The £22.3m (2009: £19.8m) cash inflow from operating activities before adjustments represents a 90% (2009: 87%) EBITDA cash conversion ratio, being a further year-on-year enhancement. Working capital increased as funding authorities pay on credit terms and the Group revenue continues to grow.

Tax, interest and dividend cash flows

Interest paid of £3.7m (2009: £4.1m) is reflective of the net financial expenses per the income statement, whilst dividends paid are consistent with the relevant section earlier in this review.

Net tax receipts of £0.2m (2009: £2.2m paid) arose due to cumulative relief for minimum future lease payments and an enhanced level of capital allowance claims

Acquisitions and capital expenditure

During the year we invested funds of £42.3m (2009: £18.4m) and, in addition, estimate that £15.3m may become payable as deferred and contingent consideration in respect of acquisitions completed during the year. Together, this investment of £57.6m can be further analysed as follows:

	Settled £m	Cash balances acquired £m	Funds invested £m	Deferred and contingent consideration £m	Total £m
Acquisitions announced in year	28.0	(3.9)	24.1	5.5	29.6
Other acquisitions in year	8.9	(0.5)	8.4	9.8	18.2
	36.9	(4.4)	32.5	15.3	47.8
Prior year deferred consideration	3.3	–	3.3	–	3.3
Capital expenditure	6.5	–	6.5	–	6.5
	46.7	(4.4)	42.3	15.3	57.6

The investment of £29.6m relates to the strategic acquisition of Greenfields, St Michael's, Outlook Park, Branas Isaf and Uplands, further details of which are explained in the Chief Executive's Statement and Operating Review as well as in the notes to the financial statements.

Investment in other acquisitions during the year of £18.2m includes a one-way option to purchase a freehold property for £7.5m. The remaining £10.7m was in respect of four small acquisitions.

Deferred consideration of £3.3m was settled in cash during the year, mainly relating to the acquisition, in 2008, of Beacon's freehold property portfolio.

Capital expenditure of £6.5m includes approximately £3m to maintain our portfolio of assets together with the purchase of around £3.5m of assets to facilitate growth.

Banking arrangements

In April 2010 we refinanced our debt facilities on attractive terms. £165m of bank facilities were made available to the Group consisting of an £85m term loan and £80m revolving credit line. The facilities expire in April 2013 and the term facility amortises by £18.5m over the remaining term.

As referred to earlier in this Review, we established effective LIBOR hedging instruments alongside the competitive terms of our bank facility.

We are delighted to have developed strong relationships with Lloyd's and Santander alongside that already enjoyed with RBS.

The Group continues to operate comfortably within its bank covenants and at 30 September 2010 had £51.8m of facility headroom to support the strategy of consolidating the fragmented markets in which we operate.

Outlook

With a substantial portfolio of freehold properties, highly predictable income stream and existing access to growth capital through attractive banking arrangements, the Group is in a strong position to continue as a leading provider of high-quality specialist social care services in a fragmented, large and growing market.



David Pugh
Group Finance Director
10 January 2011

Board of Directors

Farouq Sheikh

Executive Chairman (aged 52)
Farouq has been a key architect in CareTech's growth, having been involved in the vision and strategy from the outset in 1993. With a background in law and a good understanding of finance and commerce, Farouq has been instrumental in securing debt and equity funding for the Company as well as leading the management team in winning a number of long-term contracts from local and health authorities.

Farouq has initiated and overseen the successful equity investments and the subsequent exits for 3i Group PLC (in 1996 and 2002) and Barclays Private Equity (in 2002 and 2005). His intimate knowledge of the marketplace and his commercial and negotiating expertise assisted in the Group's growth. In 2007, he won Coutts' Entrepreneur of the Year award. He also presents at healthcare conferences to raise market awareness in the Learning Difficulties sector.

Haroon Sheikh BSc

Chief Executive Officer (aged 54)
Haroon Sheikh, a London University graduate, is one of the founder members of CareTech. Haroon brings commercial acumen, related industry experience and property knowledge which has been essential in the growth of the business. He has been actively involved with CareTech since its inception in 1993 and in his role as Chief Executive Officer, he has played a major part in the success of the Group.

He is actively involved in the day-to-day running of the business and over time has been instrumental in nurturing and supporting the senior management team which comprises disciplines in care, commerce and property. He has a deep commitment and passion to delivering high-quality care and support to people who have a learning difficulty.

David Pugh BSc Econ (Hons), AMCT, FCA

Group Finance Director (aged 49)
After graduating from Cardiff University with an honours degree in economics, David qualified as a chartered accountant with KPMG in 1986, then joined one of the largest operating divisions of Courtaulds PLC. In 1993, he qualified as a member of the Association of Corporate Treasurers. Since 1993, David has been Finance Director in a number of multinational PLCs delivering strong growth both organically and by acquisition, including businesses within the support services sector for the past 14 years. David joined CareTech in August 2008 from FTSE-250 quoted Canllion plc. He is also Company Secretary.

Stewart Wallace

Strategic Director (aged 61)
Stewart Wallace qualified as a social worker in 1971, subsequently obtaining an MA in Social Policy. He gained wide experience in London as a practitioner, policy advisor and senior manager before joining Harlow Council as head of community services in 1986. In 1992, he was appointed Director of Development in what is now the Surrey Oaklands NHS Trust. Subsequently, he was appointed General Manager of the Trust's learning disability division. He returned to social services in 1997 as a senior operations manager before joining the Board of Care Solutions Limited, a Care UK PLC subsidiary, as Development Director. He joined CareTech in November 2000 as Development Director. Stewart is a Non-Executive Director of an NHS Trust.

Karl Monaghan

Senior Non-Executive Director
(aged 48)

After graduating from University College Dublin with a Bachelor of Commerce degree Karl trained as a chartered accountant with KPMG in Dublin. He has worked in the corporate finance departments at a number of merchant banks and stockbrokers, latterly at Credit Lyonnais Securities for 7 years and Robert W. Baird for 2 years until June 2002. Karl set up Ashling Capital LLP in December 2002 to provide consultancy services to quoted and private companies. He sits on a number of AIM-quoted and private company boards.

Christa Echtele

Non-Executive Director (aged 52)

Christa studied at the University of Wurzburg, Germany, where she gained a BA in Sociology and an MA in Psychology. She also gained an MBA in 1996. Christa is a psychotherapist and was responsible for the establishment of Reed Healthcare, culminating in her leading the demerger from Reed Executive and full listing on the London Stock Exchange in 2000. Upon leaving that position as CEO of Reed Health Group plc in 2003, she has since worked for a small number of private equity houses in the role of Chairman.

Mike Adams

Non-Executive Director (aged 39)

Mike has a significant track record in the social care and disability sectors. For 5 years he was Director of the National Disability Team, responsible for policy and practice for disabled students in higher education. Mike was Director of the Disability Rights Commission for 2 years and has been Chief Executive Officer of Essex Coalition of Disabled People, a leading user-led organisation since October 2007. Mike has recently been acting Chair of a large acute hospital trust in Essex and has previously undertaken the role of a visiting professor at Leeds Metropolitan University.

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2010

Principal activities

The Group's principal activity during the year was the provision of a range of specialist social care and housing support services throughout the UK

Business review and future developments

The consolidated income statement detailed on page 29 sets out the Group's financial performance during the year

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's Statement on page 2, the Chief Executive's Statement and Operating Review on pages 4 to 8, the Finance Review on pages 14 to 17, Corporate Social Responsibility information on pages 12 and 13 and the Corporate Governance Report on pages 25 and 26 which are incorporated in this report by reference. These reports also include details of the performance of the Group during the year ended 30 September 2010 and its prospects for the future.

Key performance indicators are on page 1 and the key risks and uncertainties facing the Group are set out in the Chief Executive's Statement and Operating Review on pages 4 to 8.

Dividends

Dividends of £1,415,259 and £909,543 (total £2,324,802) have been paid during the year. The Directors propose a final dividend of 3.66p per share (2009: 3.10p) subject to approval at the forthcoming Annual General Meeting.

Share listing

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Company's share capital, including movements during the year, are set out in note 18 to the financial statements.

Charitable and political donations

No charitable or political donations were made during the year (2009: £nil).

Financial instruments

The Group is exposed to a combination of price, credit, interest rate and cash flow risks. The Group uses financial instruments including cash borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. Disclosures in respect of these instruments are set out in note 21 to the financial statements.

Payment of commercial debts

The Group's policy in relation to all of its suppliers is to settle accounts in accordance with the payment terms agreed with those suppliers. The Group does not follow any code of practice on payment of creditors or any other standard payment practice.

The number of days' purchases ("creditor days") outstanding for payment by the Group at the year end was 14 days (2009: 24 days). The Parent Company, CareTech Holdings PLC, is a holding company and does not trade.

Employees

The Directors recognise the benefits which arise from keeping employees informed of the Group's progress and plans and through their participation in the Group's performance. The Group is therefore committed to providing its employees with information on a regular basis, to consulting with them on a regular basis so that their views and/or concerns may be taken into account in taking decisions which may affect their interests, and to encouraging their participation in schemes through which they will benefit from the Group's progress and profitability. CareTech aims to foster a working environment in which all employees are treated with courtesy and respect and seeks at all times to provide opportunities to develop and reach their full potential.

The Group operates a share save share option scheme for eligible employees, details of which can be found in the Remuneration Report. The Board feels that share ownership among employees fosters team spirit and motivation and will contribute to the ultimate success of the Group.

It is the Group's policy to ensure that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and that their employment opportunities should be based on a realistic assessment of their aptitudes and abilities. Wherever possible, the Group will continue the employment of persons who become disabled during the course of their employment with the Group through retraining, acquisition of special aids and/or equipment or the provision of suitable alternative employment.

Contractual or other arrangements

The Directors consider that there are no contractual or other arrangements, such as those with major customers or suppliers, which are likely to influence, directly or indirectly, the performance of the business and its value.

Environment

The Group seeks to comply with all relevant environmental laws and regulations to improve the effectiveness of its environmental impact management.

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 10 March 2010, the Directors were granted authority to allot shares with an aggregate nominal value of up to the value of one third of the share capital of the Company.

The Directors were also granted authority to allot equity securities for cash to the holders of ordinary shares as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective shareholding or in accordance with the rights attached thereto.

Resolutions for the renewal of both of the above will be proposed at the forthcoming Annual General Meeting, further details of which, together with explanations of the resolutions to be proposed at the meeting, appear in the Notice of AGM and explanatory circular to Shareholders which will be sent to shareholders in good time prior to the meeting.

Substantial shareholdings

As at 9 December 2010 being the date of the preliminary results announcement the Company had been notified of or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Company other than those in respect of Directors which are set out in the Remuneration Report on page 23

	No. of ordinary shares of 0.5p	Percentage
Carmignac Gestion	4 595 031	9.3%
F&C Asset Management	3 953 044	8.0%
BlackRock	2 507 950	5.1%
Aegon Asset Management	2 167 846	4.4%
JO Hambro Capital Management	1 865 000	3.8%
Standard Life Investments	1 497 191	3.0%

Directors

The names of the current Directors together with brief biographical details are shown on pages 18 and 19

In accordance with the articles of association Farouq Sheikh and Christa Echtle retire by rotation and, being eligible offer themselves for re-election Having been appointed since the last AGM Mike Adams offers himself for reappointment

The names of all Directors who held office in the year are as follows

Farouq Sheikh
Haroon Sheikh
David Pugh
Stewart Wallace
Karl Monaghan
Christa Echtle
Mike Adams (appointed 17 June 2010)
Richard Steeves (resigned 15 April 2010)

The terms of the Directors' service contracts and details of the Directors' interests in the shares of the Company together with details of share options granted and any other awards made to the Directors are disclosed in the Remuneration Report commencing on page 22

Directors' insurance

The Company maintains appropriate Directors' and Officers' liability insurance as permitted by the Companies Act 2006

Going Concern

After making appropriate enquiries the Directors have reasonable expectations that the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for the foreseeable future For this reason the Directors continue to adopt the going concern basis in preparing the financial statements

Auditors

KPMG Audit Plc have expressed their willingness to continue in office and in accordance with section 489 of the Companies Act 2006 a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting

Disclosure of information to the auditors

The Directors who held office at the date of approval of this Directors Report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board



David R Pugh
Company Secretary
10 January 2011

Metropolitan House
3 Darks Lane
Potters Bar
Hertfordshire
EN6 1AG

Remuneration Report

This report is approved by the Board and follows guidance laid down in the Combined Code as far as is reasonably practicable for a public company of CareTech's size

Remuneration Committee

The Remuneration Committee comprises 2 Non-Executive Directors Christa Echtle (Chairman) and Karl Monaghan and meets at least twice each year

Its principal duties are to review the scale and structure of the remuneration and service contracts for Executive Directors and Senior Management and it also administers the Company's share option schemes

The Committee takes into consideration environmental, social and governance (ESG) issues in relation to corporate performance when setting the remuneration of Executive Directors and takes steps to ensure that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour

Remuneration philosophy

CareTech's remuneration philosophy is to provide for each of its Executive Directors and key personnel a package which is adequate to attract, retain and motivate individuals of the appropriate calibre whilst at the same time not paying more than is necessary for this purpose

The Remuneration Committee has the objective of ensuring that remuneration packages are offered which

- are set at a level reflecting the competitive market in which the Group operates
- have a significant part of remuneration linked to the achievement of performance targets
- have due regard to actual and expected market conditions
- are structured in accordance with the interests of shareholders and
- foster the development of a high-performance culture across the Group

The following comprised the principal elements of remuneration for Executive Directors and Executive Management for the year under review

- basic salary
- bonus
- benefits including car allowance, vehicle expenses and healthcare insurance and
- pension contribution

The remuneration for Non-Executive Directors is set by the full Board on the recommendation of the Executive Directors. Non-Executive Directors are not eligible to participate in any of the Company's bonus or share option schemes

Directors' service agreements

Executive Directors' service contracts are generally subject to 12 months' notice of termination on either side

The Non-Executive Directors have each been appointed under contracts which are subject to 3 months' notice of termination on either side

External appointments

Executive Directors are permitted to accept or retain non-executive appointments outside the Company provided there are no conflicts of interest. They are viewed by the Committee as giving the opportunity to broaden Directors' experience and therefore provide benefit to the Company. Fees are retained by the Executive Director concerned

Directors' remuneration (audited)

The various elements of remuneration received by each Director were as follows

Year to 30 September	Salary and fees		Benefits		Annual bonus		Total		Pension	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Current Directors										
Farouq Sheikh	300	235	38	17	37	37	375	289	6	6
Haroon Sheikh	200	185	31	14	50	50	281	249	9	9
Stewart Wallace ¹	80	76	30	8	20	8	130	92	3	3
David Pugh	153	152	59	41	38	38	250	231	8	8
Karl Monaghan	39	33	–	–	–	–	39	33	–	–
Christa Echtle	37	32	–	–	–	–	37	32	–	–
Mike Adams ²	7	–	–	–	–	–	7	–	–	–
Former Directors										
Richard Steeves ³	34	39	–	–	–	–	34	39	–	–
David Spink ⁴	–	27	–	4	–	–	–	31	–	2
Total	850	779	158	84	145	133	1,153	996	26	28

1 Stewart Wallace is contracted on a 3-day-per-week basis

2 Appointed as Director on 17 June 2010

3 Resigned as Director on 15 April 2010

4 Resigned as Director on 31 December 2008

Directors' interests

The Directors who held office at the end of the financial year had the following interests in the ordinary share capital of the Company according to the register of Directors' interests

	30 September 2010 Number of ordinary 0.5p shares	30 September 2009 Number of ordinary 0.5p shares
Westminster Holdings Limited ¹	10,422,500	10,422,500
Cosaraf Trust ²	2,060,000	2,060,000
Cosaraf Pension Fund ³	20,000	20,000
Farouq Sheikh	485,000	485,000
Haroon Sheikh	485,000	485,000
Stewart Wallace	473,374	473,374
Autovibe Limited ⁴	319,750	319,750
David Pugh	10,000	10,000
Karl Monaghan	31,250	31,250
Paragon (Premier) Properties Limited ⁵	5,916	5,916
Mike Adams	2,300	–

1 Westminster Holdings Limited is a company owned by a trust, the beneficiaries of which include Farouq Sheikh and Haroon Sheikh

2 Cosaraf Trust is a trust whose beneficiaries are the children of Farouq Sheikh and Haroon Sheikh. Farouq Sheikh and Haroon Sheikh are the trustees of this trust

3 Cosaraf Pension Fund is a self-administered scheme established for the benefit of Farouq Sheikh and Haroon Sheikh

4 Autovibe Limited is a company wholly-owned by Wendy Wallace, the wife of Stewart Wallace

5 Paragon (Premier) Properties Limited is a company wholly-owned by Christa Echtle and her husband

Remuneration Report

continued

Longer-term incentives

Employees' share trust

An employees share trust (the Trust¹) was established in 2005 to acquire shares in CareTech Holdings PLC and hold them for the benefit of key employees and participants in the share option schemes. At 30 September 2010 the Trust held 77,794 of the Company's shares being 0.16% of the total issued ordinary share capital.

Share options

The Company operates 3 share option schemes. The CareTech Holdings 2005 Approved Share Option Scheme ('The Approved Scheme'), the CareTech Holdings 2005 Unapproved Share Option Scheme ('The Unapproved Scheme') and the CareTech Holdings 2005 Sharesave Scheme ('the SAYE Scheme').

Options granted under the above schemes together with those remaining at 30 September 2010 are as follows:

Date of grant	Scheme	Options granted	Options lapsed	Options exercised	Options remaining 30 September 2010	Option price (pence)
13 October 2005 ¹	Approved Scheme	627,375	(282,085)	(221,457)	123,833	169
7 November 2005 ¹	SAYE Scheme	186,033	(43,519)	(142,514)	—	136
2 August 2006 ¹	Approved Scheme	52,427	(43,764)	(3,424)	5,239	292
2 August 2006 ¹	Unapproved Scheme	8,220	(8,220)	—	—	292
17 January 2007 ¹	Approved Scheme	162,885	(102,307)	(23,236)	37,342	345
17 January 2007 ¹	Unapproved Scheme	18,263	(7,574)	(5,785)	4,904	345
21 March 2007 ¹	Approved Scheme	6,077	—	—	6,077	452
1 February 2008	SAYE Scheme	101,397	(71,121)	—	30,276	440
2 May 2008	Approved Scheme	114,070	(54,394)	(138)	59,538	410
2 May 2008	Unapproved Scheme	23,843	(13,967)	—	9,876	410
14 April 2009 ²	Unapproved Scheme	92,308	—	—	92,308	0.5
4 August 2009	Approved Scheme	191,121	(34,008)	—	157,113	332.5
4 August 2009	Unapproved Scheme	165,050	(22,460)	—	142,590	332.5
12 August 2009	SAYE Scheme	202,069	(44,639)	—	157,430	254
3 August 2010	Approved Scheme	283,754	(1,868)	—	281,886	305
3 August 2010	Unapproved Scheme	210,653	—	—	210,653	305
3 August 2010 ²	Unapproved Scheme	92,308	—	—	92,308	0.5

1 Scheme grant of options which have reached maturity.

2 Grant of nominal cost options subject to the terms of the unapproved scheme amended rules which include specific performance criteria determining the level and extent of exercisability. These criteria are set out below.

Over the performance period, if:

- (i) share price growth is less than 50% then the option shall not vest and shall not be exercisable and the option shall lapse
- (ii) share price growth is equal to 50% then the option shall vest and become exercisable over 33% of the shares under option
- (iii) share price growth is equal to 75% then the option shall vest and become exercisable over 50% of the shares under option
- (iv) share price growth is equal to 100% then the option shall vest and become exercisable over 100% of the shares under option and
- (v) share price growth falls between the above share price targets then the extent to which the option will vest and the number of shares under option in respect of which the option may be exercised will be determined on a straight-line basis between these points.

Approved and Unapproved scheme options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary, other than nominal cost options which may become exercisable at the earliest after a period of 30 dealing days following the 3rd anniversary of being granted. SAYE scheme options are normally exercisable within 6 months following the 3rd anniversary of the date of grant.

Directors' share options

David Pugh holds options over 3,572 (2009: 3,572) ordinary shares of 0.5p in the Company's SAYE Scheme, 9,022 (2009: 9,022) ordinary shares of 0.5p in the Company's Executive Approved Scheme and 175,594 (2009: 83,286) ordinary shares of 0.5p in the Company's Executive Unapproved Scheme.

By order of the Board



Christa Echtle

Chairman of the Remuneration Committee

10 January 2011

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Corporate Governance Report

Do we comply with the Combined Code?

The CareTech Board of Directors (the Board) remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout its operations.

The Company's shares are traded on AIM and, as such, the Company is under no obligation to comply with the full requirements of the Code on Corporate Governance revised in June 2008.

However, the Board is accountable to the Company's Shareholders for ensuring effective governance and therefore strives to implement policies and procedures aimed at Code compliance as far as is reasonably practicable for a public company of its size and complexity.

This sets the tone for corporate behaviour and to help make our governance meaningful and focused on improving our business and protecting shareholder value.

Who is on our Board?

As Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Chief Executive is Haroon Sheikh. David Pugh is the Group Finance Director and Stewart Wallace is Strategic Director. The Directors' biographies appear on pages 18 and 19 and detail their experience and suitability for leading and managing the Group.

Karl Monaghan, Christa Echtle and Mike Adams are the 3 Non-Executive Directors and the Board considers each of them as independent for the purpose of the Combined Code. Richard Steeves resigned as Non-Executive Deputy Chairman in April 2010 and Mike Adams, mentioned above, was appointed in June 2010. Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the Group to achieve its strategic aims.

In the furtherance of their duties, all Directors are able to take independent professional advice at the expense of the Company and those newly-appointed are made aware of their responsibilities by the Company Secretary. The Board approves the appointment and removal of the Company Secretary.

All Directors are required to submit themselves for re-election at least every 3 years and new Directors are subject to election by Shareholders at the first opportunity following their appointment.

How do we deal with conflicts of interest?

Following amendments to the Company's Articles of Association in 2008 to reflect certain provisions of the Companies Act 2006 relating to conflicts of interest that came into force on 1 October 2008, the Board will follow a specific procedure when deciding whether to authorise a conflict or potential conflict of interest. Firstly, only independent Directors (i.e. those that have no interest in the matter under consideration) will be able to take the relevant decision. Secondly, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It remains the Board's intention to report annually on the Company's procedures for ensuring that the Board's power of authorisation of conflicts are operated effectively and that procedures have been followed.

Board and Committee meetings

The Board meets in formal session regularly, usually once each month, and members are supplied with financial and operational information in good time for scrutiny in advance of these meetings.

The Directors attended the following meetings in the year to 30 September 2010:

	Board	Audit Committee	Remuneration Committee
Farouq Sheikh	10	3	2*
Richard Steeves (resigned 15 April 2010)	6	1	1
Haroon Sheikh	10	1*	–
David Pugh	10	3*	–
Stewart Wallace	8	1*	–
Karl Monaghan	10	3	1
Christa Echtle	10	3	1
Mike Adams (appointed 17 June 2010)	2	1*	–

* By invitation

What decision-making responsibilities does the Board have?

Matters which are reserved to the Board for specific consideration and decision include:

- Financial reporting and controls, including statutory matters such as the approval of final and interim financial statements and dividend declarations
- Board membership and other senior key personnel appointments
- Review of corporate governance arrangements
- Group strategy matters including the approval of annual budgets, acquisitions and disposals
- Review of the processes for monitoring and evaluating risk and the effectiveness of the Group's system of internal control and operational efficiency
- Review and supervision of treasury and financial policies and
- Shareholder communications

Matters are delegated to Board Committees, individual Directors or executive management where appropriate. The Directors believe the Board is soundly constituted although, at this stage of the Group's development, it is felt the functions of a Nomination Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review.

Who is on the Audit Committee and what do they do?

The Audit Committee comprises Karl Monaghan (Chairman), Farouq Sheikh and Christa Echtle. Other Directors and representatives of the external auditors attend meetings by invitation as required. The Committee meets at least three times each year and receives reports from the Company's management and external auditors relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditors and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible non-audit services. Details of the amount paid to the external auditors during the year for audit and other services are set out in note 3 to the financial statements.

Corporate Governance Report

continued

Who is on the Remuneration Committee and what do they do?

The Remuneration Committee comprises Christa Echtle (Chairman) and Karl Monaghan. The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 22 to 24. Also detailed in that report are Directors' remuneration, shareholdings and share option scheme information.

A key Group strategy is to attract and retain talented and committed personnel at every level of the organisational hierarchy and the Committee aims to foster remuneration philosophy, policies and procedures to achieve this.

How do we maintain effective relationships with our Shareholders?

The Board appreciates that effective communication with the Company's Shareholders and the investment community as a whole is a key objective.

The views of both institutional and private Shareholders are important and these can be varied and wide-ranging, as is their interest in the Company's strategy, reputation and performance.

The Executive Chairman has overall responsibility for ensuring this communication is effectively discharged and for making the Board fully aware of key Shareholder's views, comments and opinions.

Contact with investors throughout the year is a priority and the Board does its best to look after their interests. General presentations to major Shareholders following the publication of the Group's annual and interim results are conducted by the Executive Chairman, the Group Finance Director and the Strategic Director as are regular meetings through the year with fund managers and investment analysts.

Robust year-on-year dividend growth is an objective and all Shareholders are encouraged to attend the Company's Annual General Meeting, which all Board members attend, as this provides an opportunity to address questions to the Directors.

The Group's annual and interim reports are sent to all Shareholders and all results. Company announcements and related investor information can be accessed via the Group's website: www.caretech-uk.com. The website is under constant review in an effort to maximise the effectiveness of information made available to Shareholders.

How do we manage our internal controls and risks?

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. Independent assurance is provided by the external auditors. The system of internal controls is designed to manage rather than eliminate the risk of failure of the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The recent challenging business climate has resulted in a sustained focus on the approach to risk. The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. These processes have been implemented during the year under review and up to the date of approval of this annual report and financial statements. The processes and procedures are regularly reviewed by the Board.

A process of control and hierarchical reporting provides for a documented and auditable trail of accountability. These procedures are relevant across all Group operations; they provide for successive assurances to be given at increasingly higher levels of management and finally to the Board.

The processes used by the Board to review the effectiveness of the system of internal controls include the following:

- annual budgets are prepared for each operating business. Monthly management reporting focuses on actual performance against these budgets for each operating business.
- management reports and external audit reports on the system of internal controls and any material control weaknesses that are identified.
- discussions with management including discussions on the actions taken on problem areas identified by Board members or in the external audit reports.
- policies and procedures for such matters as delegation of authorities, capital expenditure and treasury management as well as regular updates.
- review of the adequacy of the level of experienced and professional staff throughout the business and the expertise of individual staff members so that they are capable of carrying out their individual delegated responsibilities, and
- review of the external audit work plans.

By order of the Board



David R. Pugh
Company Secretary
10 January 2011

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements the directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent Auditors' Report to the Members of CareTech Holdings PLC

We have audited the financial statements of CareTech Holdings PLC for the year ended 30 September 2010 which comprise the consolidated income statement the consolidated and Parent Company statements of comprehensive income the consolidated and Parent Company statements of changes in equity the consolidated and Parent Company Balance sheets and consolidated and Parent Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work for this report or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2010 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



GA Watts (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
10 January 2011

Consolidated Income Statement

for the year ended 30 September 2010

	Note	2010			2009		
		Before adjustments £000	Adjustments ⁽ⁱ⁾ £000	£000	Before adjustments £000	Adjustments ⁽ⁱ⁾ £000	£000
Revenue		89,697	–	89,697	83,421	–	83,421
Cost of sales		(52,321)	–	(52,321)	(49,824)	–	(49,824)
Gross profit		37,376	–	37,376	33,597	–	33,597
Administrative expenses		(15,294)	(5,929)	(21,223)	(13,227)	(1,994)	(15,221)
Operating profit		22,082	(5,929)	16,153	20,370	(1,994)	18,376
EBITDA ⁽ⁱⁱ⁾		24,848	(5,042)	19,806	22,779	(1,654)	21,125
Depreciation	9	(2,496)	–	(2,496)	(2,200)	–	(2,200)
Amortisation of intangible assets	10	–	(887)	(887)	–	(340)	(340)
Share-based payments charge		(270)	–	(270)	(209)	–	(209)
Operating profit		22,082	(5,929)	16,153	20,370	(1,994)	18,376
Financial income	6	23	–	23	15	–	15
Financial expenses	4.6	(3,710)	(4,903)	(8,613)	(5,091)	(6,491)	(11,582)
Profit before tax		18,395	(10,832)	7,563	15,294	(8,485)	6,809
Taxation	4.7	(3,679)	2,637	(1,042)	(3,103)	1,087	(2,016)
Comprehensive income for the year attributable to equity shareholders of the parent		14,716	(8,195)	6,521	12,191	(7,398)	4,793
Earnings per share							
Basic	8			13.63p			10.73p
Diluted	8			13.55p			10.67p

(i) See note 4

(ii) EBITDA is operating profit stated before depreciation, amortisation of intangible assets and share-based payments charge

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2010

	2010 £000	2009 £000
Profit for the year	6,521	4,793
Total comprehensive income for the year attributable to equity shareholders of the parent	6,521	4,793

Consolidated Statement of Changes in Equity

for the year ended 30 September 2010


	Note	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2008		223	38 543	5 037	216	44 019
Total comprehensive income						
Profit for the year		–	–	–	4 793	4 793
Transactions with owners recorded directly in equity						
Issue of ordinary shares		2	309	–	–	311
Equity settled share-based payments charge		–	–	–	209	209
Dividends	19	–	–	–	(1 918)	(1 918)
At 30 September 2009		225	38 852	5 037	3 300	47 414
At 1 October 2009		225	38 852	5 037	3 300	47 414
Total comprehensive income						
Profit for the year		–	–	–	6 521	6 521
Transactions with owners recorded directly in equity						
Issue of ordinary shares	18	23	14 663	3 461	–	18 147
Equity settled share-based payments charge		–	–	–	270	270
Dividends	19	–	–	–	(2,326)	(2 326)
At 30 September 2010		248	53,515	8,498	7,765	70,026


Consolidated Balance Sheet

at 30 September 2010

	Note	2010 £000	2009 £000
Non-current assets			
Property, plant and equipment	9	191,639	160,330
Other intangible assets	10	26,935	2,619
Goodwill	10	26,159	15,954
		244,733	178,903
Current assets			
Trade and other receivables	12	11,434	10,397
Cash and cash equivalents	13	10,008	4,321
Tax recoverable		–	464
		21,442	15,182
Total assets		266,175	194,085
Current liabilities			
Loans and borrowings	14	5,866	6,125
Trade and other payables	15	24,821	18,741
Tax payable		2,267	–
Deferred and contingent consideration payable	20d	14,735	6,868
Deferred income		3,252	4,467
		50,941	36,201
Non-current liabilities			
Loans and borrowings	14	117,389	91,585
Deferred tax liabilities	16	20,905	12,710
Derivative financial instruments		6,314	6,175
Deferred and contingent consideration payable	20d	600	–
		145,208	110,470
Total liabilities		196,149	146,671
Net assets		70,026	47,414
Equity attributable to equity shareholders of the parent			
Share capital	18	248	225
Share premium		53,515	38,852
Merger reserve		8,498	5,037
Retained earnings		7,765	3,300
Total equity attributable to equity shareholders of the parent		70,026	47,414

These financial statements were approved by the Board of Directors on 10 January 2011 and were signed on its behalf by


F. Sheikh
Executive Chairman


D. R. Pugh
Group Finance Director

Company number 4457287

Financial Statements

Consolidated Cash Flow Statement

for the year ended 30 September 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Profit before tax		7,563	6 809
Adjustments for			
Financial income		(23)	(15)
Financial expenses		8,613	11 582
Adjustments for minimum future lease payment uplifts	22	1,560	1 654
Bargain purchase credit	4 20	(3,828)	-
Depreciation	9	2,496	2 200
Amortisation	10	887	340
Share based payments charge		270	209
Interest received		23	15
Operating cash flows before movement in working capital		17,561	22 794
Decrease/(increase) in trade and other receivables		1,153	(2 332)
Decrease in trade and other payables		(850)	(682)
Cash inflows from operating activities		17,864	19 780
Tax received/(paid)		234	(2 198)
Net cash from operating activities		18,098	17 582
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	20c	(32,554)	(8 711)
Acquisition of property plant and equipment		(7,849)	(6 969)
Acquisition of intangible assets		-	(1 128)
Acquisition of software	10	(713)	(208)
Net cash used in investing activities		(41,116)	(17 016)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)	18	14,647	311
Proceeds from new loan (net of costs)		24,992	10 747
Interest paid		(3,681)	(4 153)
Cash outflow arising from ineffective hedging arrangements		(3,025)	(1 580)
Repayment of borrowings		(1,200)	(1 200)
Payment of finance lease liabilities		(702)	(578)
Dividends paid	19	(2,326)	(1 918)
Net cash from financing activities		28,705	1 629
Net increase in cash and cash equivalents		5,687	2 195
Cash and cash equivalents at start of year		4,321	2 126
Cash and cash equivalents at 30 September	13	10,008	4 321
Net debt in the balance sheet comprises			
		2010 £000	2009 £000
Cash at bank and in hand	13	10,008	4 321
Bank loans	14	(120,934)	(95 724)
Finance lease and hire purchase contracts	14	(2,321)	(1,986)
Net debt at 30 September		(113,247)	(93 389)

Notes

1. Background and basis of preparation

CareTech Holdings PLC (the 'Company') is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2010 comprise the Company and its subsidiaries (together referred to as the 'Group'). The consolidated financial statements are presented in GBP (£) which is the Company's functional currency rounded to the nearest thousand. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements were approved for release by the Board of Directors on 10 January 2011.

Going Concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Operating Review on pages 2 to 8. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 14 to 17. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through a mixture of bank facilities which are sufficient with cash flow from profits to fund present commitments.

A new facility was agreed with the Group's bankers in April 2010 and expires in April 2013. The current economic conditions create some uncertainty over the level of funding available for the Group's services. Nevertheless, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group expects to be able to operate within the current levels of its facilities.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The following adopted IFRS were available for early application but have not been applied by the Group in these financial statements:

Endorsed	Effective for periods beginning on or after
IFRS 2	
Amendments to clarify scope and accounting for group-settled share-based payment transactions in the separate financial statements	1 January 2010
Improvements Project	
Amendments to various standards including:	
IAS 1 Presentation of financial statements – current/non-current classification of convertible instruments	1 January 2010
IAS 7 Statement of cash flows – classification of expenditures on unrecognised assets	1 January 2010
IAS 17 Leases – classification of leases of land and buildings	1 January 2010
IAS 18 Revenue – determining whether an entity is acting as principal or agent	1 January 2010
IAS 36 Impairment of Assets – unit of accounting for goodwill impairment test	1 January 2010
IAS 38 Measuring the fair value of an intangible asset acquired in a business combination	1 January 2010
IAS 39 Financial Instruments: Recognition and measurement – treating loan prepayment penalties as closely-related embedded derivatives	1 January 2010
IAS 39 Financial Instruments: Recognition and measurement – cash flow hedge accounting	1 January 2010

The Directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing 1 October 2010 and/or 1 October 2011 as appropriate and that their adoption will have no material impact on the financial statements of the Group.

Judgments made by the Directors in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

For the year ended 30 September 2010 the following accounting standards were adopted:

- IFRS 3 Business Combinations (revised)
- IAS 23 Borrowing Costs (revised)
- IAS 1 Presentation of financial statements
- IFRS 8 Operating Segments

IFRS 3 Business Combinations

This standard is effective for periods beginning on or after 1 July 2009 and has therefore been applied by the Group from 1 October 2009. There are a number of effects from the application of this standard as follows:

- All acquisitions of integrated sets of activities capable of operating as a business are required to be accounted for as a business combination.
- Acquisition costs incurred are expensed as incurred.
- Contingent consideration is estimated at its fair value as at the date of acquisition and thereafter remeasured at fair value until settled. Changes in fair value are recorded within finance income/expense within the income statement, and
- The revised IFRS 3 is applied on a prospective basis only, so no changes are made to business combination accounting in the periods prior to 30 September 2009.

Notes

continued

2 Accounting policies continued

IAS 23 Borrowing Costs

For borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 October 2009 the Group capitalises borrowing costs directly attributable to the acquisition construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. In accordance with the transitional provisions comparative figures have not been restated. The impact in the year ended 30 September 2010 is that £360 000 of borrowing costs on qualifying assets have been capitalised.

IAS 1 Presentation of Financial Statements

This standard is effective for periods beginning on or after 1 January 2009 and has therefore been applied by the Group from 1 October 2009. As a result the Group presents in the Consolidated Statement of Changes in Equity all owner changes in equity. A Consolidated Statement of Comprehensive Income is also presented. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change is presentational only there is no impact on earnings per share.

IFRS 8 Operating Segments

As of 1 October 2009 the Group is required by the standard to determine and present operating segments based on the information that internally is provided to the Chief Executive who is the Group's chief operating decision-maker. Previously operating segments were required to be determined in accordance with IAS 14 Segment Reporting. Since the change is presentational only there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are reviewed regularly by the Chief Executive to make decisions about resources to be allocated to the segment and to assess its performance and for which discreet financial information is available.

(b) Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

The Group's business activities together with the factors likely to affect its future development performance and position are set out in the Chairman's Statement, Chief Executive's Statement and Operating Review and the Finance Review on pages 2 to 17. The financial position of the Company its cash flows liquidity position and borrowing facilities are described in the Finance Review and in notes 14 and 21 to the financial statements which include the Group's objectives policies and processes for managing its capital its financial risk management objectives details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value remeasured at each reporting date. The gain or loss on remeasurement to fair value is recognised immediately in finance income or expense. However where derivatives are designated as a hedging instrument and qualify for hedge accounting recognition of any resultant gain or loss depends on whether or not the hedges are assessed as effective. Where this is the case changes in the fair value are recognised directly in equity and transferred to the income statement in the same period that the hedged item affects profit and loss (see below).

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

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

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

(e) Property, plant and equipment

Property plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing a component of an item of property plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property plant and equipment are recognised in profit or loss as incurred.

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

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

2 Accounting policies continued

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land (which comprises approximately 50% of the land and buildings balance) is not depreciated. The Directors reassess the residual value estimates, particularly in respect of properties, on an annual basis. The estimated useful lives are as follows:

- | | |
|------------------------------------|--|
| • freehold buildings | 2% straight-line |
| • long leasehold property | over the life of the lease
(to a maximum of 50 years) |
| • short leasehold property | over the life of the lease |
| • fixtures, fittings and equipment | 25% reducing balance and |
| • motor vehicles | 25% reducing balance |

(f) Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents on the excess of the fair value of the consideration over the fair value of the assets, liabilities and contingent liabilities acquired on acquisition of subsidiaries. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Negative goodwill (Bargain purchase credit) arising on an acquisition is recognised in profit or loss.

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- | | |
|--------------------------|--------------------|
| • Customer relationships | up to 10 years and |
| • Software and licences | up to 5 years |

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

(h) Impairment (excluding deferred tax assets)

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Interest-bearing borrowings

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs.

(j) Employee benefits

Defined contribution plans

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

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The fair value of options on the date granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Notes

continued

2. Accounting policies continued

The Group took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 October 2006

(k) Provisions

A provision other than provisions for deferred taxation is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected risk-adjusted future cash flows at a pre-tax risk-free rate

(l) Revenue

Revenue comprises the fair value of fee income receivable for the year in respect of the provision of care services and is recognised in respect of the days care that has been provided in the relevant period. Revenue invoiced in advance is included in deferred income until service is provided. Revenue in respect of licensing rights is recognised on commencement of contractual arrangements when fees in respect of these are fixed, non-cancellable and there are no further significant delivery obligations for the Group

(m) Expenses

Finance lease payments

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

Adjustments

Adjustments are events or transactions which, in the opinion of the directors, by virtue of size, nature or incidence are disclosed separately in order to improve a reader's understanding of the financial statements

Financing costs

Financing costs, comprising interest payable on bank loans and overdrafts, finance charges on finance leases, the unwinding of the discount on provisions and the costs incurred in connection with the arrangement of borrowings are recognised in the income statement using the effective interest rate method

Interest income and interest payable is recognised in profit or loss as it accrues using the effective interest method

Financing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset

(n) Operating leases

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term

The Group accounts for sale and leaseback transactions according to the nature of the lease arrangement which arises. Transactions which give rise to an operating lease, in which substantially all the risks and rewards of ownership are transferred, result in a profit or loss on disposal being recognised immediately, calculated by reference to the sale price and the previous carrying value. Profits or losses arising on transactions giving rise to a finance lease, where the Group retains substantially all the risks and

rewards of ownership, are deferred and amortised over the shorter of the lease term and the life of the asset

(o) Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

(p) EBITDA and adjusted earnings per share

EBITDA as defined on page 29 is the key profit measure used by the Board to assess the trading performance of the Group as a whole

A measure of adjusted earnings and adjusted earnings per share has been presented in order to present the earnings of the Group after adjusted items which are not considered to impact an assessment of the trading performance of the Group

(q) Business combinations

Accounting for business combinations

From 1 October 2009 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable

Acquisitions on or after 1 October 2009

For acquisitions on or after 1 October 2009, the Group measures goodwill at the acquisition date as

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

2. Accounting policies continued

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in finance income or expense in the income statement.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 October 2006 and 1 October 2009

For acquisitions between 1 October 2006 and 1 October 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurred in connection with business combinations, were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 October 2006 (date of transition to IFRSs)

In respect of acquisitions prior to 1 October 2006, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

(r) Segment reporting

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 October 2009. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. IFRS 8 requires disclosure of the operating segments which are reported to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the Chief Executive, who has responsibility for planning and controlling the activities of the Group.

The Group's reportable segment has been identified as provision of care services. The provision of care services covers a wide range of possible activities, a number of which are undertaken by the Group. Across the Group, there is considered to be a commonality in the nature of the services, the type of customer, the methods used to provide services and the regulatory environment. Information is provided to the CODM on a home-by-home basis and aggregated to form the Group results under IFRS, as reported EBITDA (as defined in (p) above) is considered to be the key measure of performance. The impact of adjustment items is separately analysed within the information used by the CODM for planning and controlling the activities of the Group and allocating resources. Details of these items are shown in note 4.

All operations of the Group are carried out in the UK, the Company's country of domicile. All revenues therefore arise within the UK and all non-current assets are likewise located in the UK. No single external customer amounts to 10% or more of the Group's revenues.

3 Auditors' remuneration

	2010 £000	2009 £000
Audit of these financial statements	55	55
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	208	117
Other services relating to taxation	78	110
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	5	–
All other services	44	91

Notes

continued

4 Adjustments

Adjustments are those items of financial performance that, in the opinion of the Directors, should be disclosed separately in order to improve a reader's understanding of the trading performance achieved by the Group. Adjustments comprise the following:

	Note	2010 £000	2009 £000
Acquisition transaction costs	(i)	3,562	-
Acquisition and development related staff costs	(ii)	1,993	-
Post acquisition integration and reorganisation costs	(iii)	1,159	-
Fair value adjustments in respect of prior year acquisitions	(iv)	596	-
Acquisition and development costs		7,310	-
Bargain purchase credit (note 20)		(3,828)	-
Adjustments for minimum future lease payment uplifts (note 22)	(v)	1,560	1,654
Amortisation of intangible assets		887	340
Included in administrative expenses		5,929	1,994
Loan finance costs written off on refinancing (note 6b)	(vi)	1,675	-
Charges relating to derivative financial instruments (note 6b)	(vii)	3,228	6,491
Included in financial expenses		4,903	6,491
Adjustments tax effect (note 7)			
Current tax	(viii)	(2,773)	(463)
Deferred tax	(ix)	136	(624)
Included in taxation		(2,637)	(1,087)
Total adjustments		8,195	7,398

- (i) Following adoption of IFRS 3 (as revised) in this accounting period, items associated with business combinations have been taken to the income statement as incurred. No restatement has been made to prior years to reflect the adoption of the new standard. Acquisition transaction costs have been incurred with external parties.
- (ii) Following adoption of IFRS 3 (as revised) in this accounting period, items associated with business combinations and developments have been taken to the income statement as incurred. No restatement has been made to prior years to reflect the adoption of the new standard. Acquisition and development related staff costs were capitalised during previous financial years.
- (iii) The Group incurred a number of costs relating to the reorganisation and integration of recent acquisitions.
- (iv) In accordance with IFRS 3 (as revised), adjustments to the fair value of acquisitions completed in previous financial years are recognised in the income statement.
- (v) Adjustments relate to non-cash additional charges under IAS 17 which incorporate recognising the effect of future minimum lease payment uplifts on a straight line basis.
- (vi) In April 2010, the Group completed a new banking arrangement. As such, the unamortised element of loan fee costs on the replaced debt was written off.
- (vii) Charges relating to derivative financial instruments include the movements during the year in the fair value of interest rate swaps which are not designated as hedging instruments and therefore do not qualify for hedge accounting.
- (viii) Represents the current tax on items (i) to (vi) above.
- (ix) A deferred tax credit of £148,000 (2009: £1,375,000) arises in respect of a charge relating to derivative financial instruments in (vii) above. In addition, a credit of £1,251,000 (2009: £nil) arises in respect of changes in future corporation tax rates, together with a charge from the effects of full provisions for deferred tax under IAS 12 amounting to £1,535,000 (2009: £751,000).

5 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2010	2009
Residential care staff	2,639	2,390
Maintenance	26	23
Management and administration	203	157
	2,868	2,570

The aggregate payroll costs of these persons were as follows:

	2010 £000	2009 £000
Wages and salaries	43,124	37,519
Share-based payments charge	270	209
Social security costs	3,556	3,140
Other pension costs	114	88
	47,064	40,956

6 Financial income and expenses

	2010 £000	2009 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss		
On bank deposits	23	15
Total financial income	23	15
	2010 £000	2009 £000
(b) Financial expenses		
On bank loans and overdrafts	3,510	4 813
Finance charges in respect of finance leases	200	278
Financial expenses before adjustments	3,710	5 091
Loan finance costs written off on refinancing (note 4)	1,675	-
Charges relating to derivative financial instruments (note 4)	3,228	6 491
Total financial expenses	8,613	11 582

In accordance with the revision to IAS 23 borrowing costs of £360 000 have been capitalised in the year. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

Loan finance costs of £577,000 were incurred on the refinancing and are amortised in accordance with the accounting policy in note 2 (i).

7 Taxation

(a) Recognised in the income statement

	2010			2009		
	Before adjustments £000	Adjustments £000	Total £000	Before adjustments £000	Adjustments £000	Total £000
Current tax expense						
Current year	4,215	-	4,215	3 095	-	3 095
Current tax on adjustments	-	(2,773)	(2,773)	-	(463)	(463)
Adjustment for prior years	-	-	-	(224)	-	(224)
Total current tax	4,215	(2,773)	1,442	2,871	(463)	2 408
Deferred tax expense						
Current year	(536)	1,535	999	232	751	983
Effect of changes in future tax rate and other adjustments	-	(1,251)	(1,251)	-	-	-
Deferred tax on adjustments	-	(148)	(148)	-	(1 375)	(1 375)
Total deferred tax	(536)	136	(400)	232	(624)	(392)
Total tax in income statement	3,679	(2,637)	1,042	3 103	(1 087)	2 016

(b) Reconciliation of effective tax rate

	2010 £000	2009 £000
Profit before tax for the year	7,563	6 809
Tax using the UK corporation tax rate of 28%	2,118	1 907
Non-deductible expenses	482	420
Over-provided in prior years	-	(224)
Effect of changes in future tax rate	(357)	-
Deferred tax adjustments in respect of prior years	(538)	-
Other deferred tax adjustments	(356)	-
Utilisation of tax losses	(307)	(87)
Total tax in income statement	1,042	2 016

The calculation of the Group's deferred tax charge is significantly impacted because of the fact that IAS 12 does not permit discounting of deferred tax liabilities. This has been included in note 4 in order to present earnings measures on a comparable basis. 2010: £1 535 000 (2009: £751 000).

Notes

continued

8 Earnings per share

	2010 £000	2009 £000
Profit attributable to ordinary shareholders	6,521	4 793
Adjustments (note 4)	8,195	7 398
Profit attributable to ordinary shareholders before adjustments	14,716	12 191
Weighted number of shares in issue for basic earnings per share	47,829,070	44 685 480
Effects of share options in issue	307,898	223 490
Weighted number of shares for diluted earnings per share	48,136,968	44 908 970

Diluted earnings per share is the basic earnings per share adjusted for the dilutive effect of the conversion into fully paid shares of the weighted average number of share options outstanding during the period

Earnings per share (pence per share)

Basic	13 63p	10 73p
Diluted	13 55p	10 67p

Earnings per share before adjustments (pence per share)

Basic	30 77p	27 28p
Diluted	30 57p	27 15p

9 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2008	144 117	2 188	6 857	153 162
Acquisitions through business combinations	5 829	4	36	5 869
Other acquisitions	5 021	1 244	1 820	8 085
Disposals	–	(9)	–	(9)
At 30 September 2009	154 967	3 427	8 713	167 107
At 1 October 2009	154 967	3 427	8 713	167 107
Acquisitions through business combinations	27 785	99	833	28 716
Other acquisitions	1 924	866	2 410	5 200
Disposals	(57)	–	(70)	(127)
At 30 September 2010	184,619	4,392	11,885	200,896
Depreciation and impairment				
At 1 October 2008	1,340	801	2 445	4 586
Depreciation charge for the year	520	447	1 233	2 200
Disposals	–	(9)	–	(9)
At 30 September 2009	1 860	1 239	3 678	6 777
At 1 October 2009	1 860	1,239	3 678	6 777
Depreciation charge for the year	604	541	1 351	2 496
Disposals	(5)	–	(11)	(16)
At 30 September 2010	2,459	1,780	5,018	9,257
Net book value				
At 1 October 2008	142,777	1,387	4 412	148 576
At 30 September 2009	153 107	2 188	5 035	160 330
At 30 September 2010	182,160	2,612	6,867	191,639

Included in the result for the year is a profit of £350 000 (2009 £250 000) on disposal of fixed assets

9 Property, plant and equipment continued

Land and buildings

The net book value of land and buildings is split as follows

	2010 £000	2009 £000
Freehold	175,314	146,491
Long leasehold improvements	4,750	4,966
Short leasehold improvements	2,096	1,650
	182,160	153,107

Security

All of the Group's freehold properties are pledged as security for bank borrowings

10 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
At 1 October 2008	15,574	739	704	17,017
Acquisitions through business combinations	380	-	-	380
Other acquisitions – externally purchased	-	208	1,602	1,810
At 30 September 2009	15,954	947	2,306	19,207
At 1 October 2009	15,954	947	2,306	19,207
Acquisitions through business combinations	10,205	-	23,932	34,137
Other acquisitions – externally purchased	-	713	558	1,271
At 30 September 2010	26,159	1,660	26,796	54,615
Amortisation				
At 1 October 2008	-	212	82	294
Amortisation for the year	-	190	150	340
At 30 September 2009	-	402	232	634
At 1 October 2009	-	402	232	634
Amortisation for the year	-	190	697	887
At 30 September 2010	-	592	929	1,521
Net book value				
At 1 October 2008	15,574	527	622	16,723
At 30 September 2009	15,954	545	2,074	18,573
At 30 September 2010	26,159	1,068	25,867	53,094

Amortisation

The amortisation charge is recognised in the following line items in the income statement

	2010 £000	2009 £000
Administrative expenses	887	340

Impairment testing for cash-generating units containing goodwill

The Group tests goodwill for impairment on an annual basis by considering the recoverable amount of individual cash-generating units against carrying value

Cash-generating units comprise collections of care homes. Cash-generating units include those collections of care homes acquired in separate transactions on which goodwill has arisen. This is the lowest level at which goodwill has arisen and is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives.

Notes

continued

10 Intangible assets continued

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been calculated with reference to value in use. The key assumptions for the period over which management approved forecasts are based and beyond this, for the value in use calculations overall, are those regarding discount rates, growth and occupancy rates, achievement of future revenues and expected changes in direct costs during the periods. In arriving at the values assigned to each key assumption, management makes reference to past experience and external sources of information regarding the future – for example changes in indirect tax rates. The assumptions have been reviewed in light of the current economic and public spending environment. The key features of these calculations are shown below.

	2010	2009
Period over which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	0%	0%
Pre-tax discount rate	8%	8%

In preparing value in-use calculations for cash-generating units, cash flow periods of between 10 and 20 years have been used in order to match the period of goodwill with the average period of time service users are expected to remain in their relevant home. Aside from this, the risk profiles of each of the cash-generating units are considered to be the same since the operations are all similar. As such, the key features set out above are applied to each of the cash-generating units below. A growth rate of 0% has been used to ensure a measure of prudence in the calculation.

The Directors believe that, even in the current economic and public spending environment and taking into account the nature of the Group's operations, any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the cash-generating units' carrying amount to exceed the recoverable amount.

The carrying value of goodwill is split between the following cash-generating units:

	2010 £000	2009 £000
Acquisition of the original CareTech Group	3,660	3,660
Delam acquisition 2006	732	732
Lonsdale acquisition 2006	3,052	3,052
Counticare acquisition 2007	1,074	1,074
One Step acquisition 2007	3,961	3,961
Beacon Care acquisition 2008	578	578
Valeo acquisition 2008	2,897	2,897
Uplands acquisition 2010	342	–
Prestwood acquisition 2010	433	–
Fostering acquisitions 2010	2,728	–
Family Assessment acquisition 2010	2,177	–
St. Michael's acquisition 2010	801	–
Roborough House acquisition 2010	432	–
Greenfields acquisition 2010	2,035	–
Franklin acquisition 2010	335	–
Branas Isaf acquisition 2010	922	–
	26,159	15,954

11. Group undertakings

The Group has the following investments in trading subsidiaries included in the consolidated results for the year

	Country of incorporation	Class of shares held	Ownership	
			2010 %	2009 %
CareTech Community Services Limited	England and Wales	Ordinary	100	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	100 ^a	100 ^a
Care Support Services Limited	England and Wales	Ordinary	100 ^a	100 ^a
Delam Care Limited	England and Wales	Ordinary	100 ^a	100 ^a
Sunnyside Care Homes Limited	England and Wales	Ordinary	100 ^a	100 ^a
Lonsdale Midlands Limited	England and Wales	Ordinary	100 ^a	100 ^a
Daisybrook Limited	England and Wales	Ordinary	100 ^a	100 ^a
CareTech Estates Limited	England and Wales	Ordinary	100	100
Community Support Project Limited	England and Wales	Ordinary	100	100
One Step (Support) Limited	England and Wales	Ordinary	100 ^b	100 ^b
Counticare Limited	England and Wales	Ordinary	100 ^a	100 ^a
H20 Limited	Gibraltar	Ordinary	100 ^a	100 ^a
Hazeldene Limited ¹	Gibraltar	Ordinary	100 ^a	100 ^a
One Six One Limited	England and Wales	Ordinary	100 ^a	100 ^a
Barleycare Limited	England and Wales	Ordinary	100 ^a	100 ^a
Valeo Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 5) Limited	England and Wales	Ordinary	100	100
Beacon Care Holdings Limited	England and Wales	Ordinary	100	100
Beacon Care Investments Limited	England and Wales	Ordinary	100	100
Ashcroft House Limited	England and Wales	Ordinary	100 ^c	100 ^c
Ashring House Limited	England and Wales	Ordinary	100 ^c	100 ^c
Ashview House Limited	England and Wales	Ordinary	100 ^c	100 ^c
Beacon Care Limited	England and Wales	Ordinary	100 ^c	100 ^c
Beech Care Limited	England and Wales	Ordinary	100 ^c	100 ^c
Bright Care Limited	England and Wales	Ordinary	100 ^c	100 ^c
Emeraldpoint Limited	England and Wales	Ordinary	100 ^c	100 ^c
Glenroyd House Limited	England and Wales	Ordinary	100 ^c	100 ^c
Kirkstall Lodge Limited	England and Wales	Ordinary	100 ^c	100 ^c
Leigham Lodge Limited	England and Wales	Ordinary	100 ^c	100 ^c
Palm Care Limited	England and Wales	Ordinary	100 ^c	100 ^c
Vosse Court Limited	England and Wales	Ordinary	100 ^c	100 ^c
Wyatt House Limited	England and Wales	Ordinary	100 ^c	100 ^c
Addington House Limited	England and Wales	Ordinary	100 ^d	100 ^a
Magnolia Court Limited	England and Wales	Ordinary	100 ^d	100 ^a
Victoria Lodge Limited	England and Wales	Ordinary	100 ^d	100 ^a
Hereson House Limited	England and Wales	Ordinary	100 ^d	100 ^a
Huntsmans Lodge Limited	England and Wales	Ordinary	100 ^a	100 ^a
White Cliffs Lodge Limited	England and Wales	Ordinary	100 ^a	100 ^a
Rosedale Children's Services Limited	England and Wales	Ordinary	100 ^a	100 ^a
Roborough House Limited	England and Wales	Ordinary	100 ^a	-
Franklin Homes Limited	England and Wales	Ordinary	100 ^a	-
Family Assessment Services (Birmingham) Limited	England and Wales	Ordinary	100	-
Greenfields Care Group Limited	England and Wales	Ordinary	100 ^a	-
Greenfields Adolescent Development Limited	England and Wales	Ordinary	100 ^f	-
St Michael's Support and Care Limited	England and Wales	Ordinary	100 ^a	-
St Michael's Support and Care Properties Limited	England and Wales	Ordinary	100 ^a	-
Outlook Fostering Services Limited	England and Wales	Ordinary	100 ^a	-
Prestwood Residential Homes Ltd	England and Wales	Ordinary	100 ^a	-
Park Foster Care Ltd	England and Wales	Ordinary	100 ^a	-

Notes

continued

11. Group undertakings continued

	Country of incorporation	Class of shares held	Ownership	
			2010 %	2009 %
Branas Isaf (Holdings) Limited	England and Wales	Ordinary	100 ^a	–
Branas Isaf Personal Development Centre Limited	England and Wales	Ordinary	100 ^a	–
Branas Isaf (Bythnod & Hendre Llywd) Limited	England and Wales	Ordinary	100 ^b	–
Branas Isaf (Llyn Coed) Limited	England and Wales	Ordinary	100 ^b	–
Branas Isaf (Dewis Cyfarod & Cysgod Cyfarfod) Limited	England and Wales	Ordinary	100 ^b	–
Branas Isaf (Ashfield House) Limited	England and Wales	Ordinary	100 ^b	–
Branas Isaf (Education Centre) Limited	England and Wales	Ordinary	100 ^a	–
Mason Property Development Company Limited	England and Wales	Ordinary	100 ^a	–
Coveberry Limited	England and Wales	Ordinary	100 ^a	–
Uplands (Fareham) Limited	England and Wales	Ordinary	100 ⁱ	–

- 1 Has a UK designated trading branch: Hazeldene UK Limited
a a subsidiary of CareTech Community Service Limited
b a subsidiary of Community Support Project Limited
c a subsidiary of Beacon Care Holdings Limited
d a subsidiary of Beacon Care Investments Limited
e a subsidiary of H2O Limited
f a subsidiary of Greenfields Care Group Limited
g a subsidiary of Branais Isaf (Holdings) Limited
h a subsidiary of Branais Isaf Personal Development Centre Limited
i a subsidiary of Coveberry Limited

12 Trade and other receivables

	2010 £000	2009 £000
Trade receivables (note 21)	6,929	7,169
Other debtors	490	552
Prepayments	4,015	2,676
	11,434	10,397

13 Cash and cash equivalents

	2010 £000	2009 £000
Cash and cash equivalents per balance sheet	10,008	4,321
Cash and cash equivalents per cash flow statement	10,008	4,321

14 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 21.

	2010 £000	2009 £000
Non-current liabilities		
Secured bank loans	115,934	90,124
Finance lease liabilities	1,455	1,461
	117,389	91,585
Current liabilities		
Current portion of secured bank loans	5,000	5,600
Current portion of finance lease liabilities	866	525
	5,866	6,125

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2010 £000	Book value 2009 £000
Term loan	£	1.75 (2009: 1.4) ¹	2013	84,611	63,286
Revolving credit facility term loan	£	2.25 (2009: 1.5) ¹	2013	36,323	32,438
				120,934	95,724

¹ Margin over LIBOR

14 Other interest-bearing loans and borrowings continued

At 30 September 2010 the Group has available bank facilities totalling £165m sufficient with cash flow from profits to fund present commitments. Term facilities are used to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources.

The term loans are secured by way of a charge over certain assets of the Group.

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000
Less than 1 year	1,035	169	866	731	206	525
Between 1 and 5 years	1,685	230	1,455	2,233	772	1,461
	2,720	399	2,321	2,964	978	1,986

15 Trade and other payables

	2010 £000	2009 £000
Trade payables	3,271	3,605
Accrued expenses	21,550	15,136
	24,821	18,741

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	2010		2009	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	–	4,692	–	3,669
Intangible assets	–	13,712	–	6,234
Derivative financial instruments	(1,878)	–	(1,729)	–
Employee benefits	–	–	(84)	–
Share-based payments	(381)	–	(317)	–
Rolled-over gains on property, plant and equipment	–	4,760	–	4,937
Tax (assets)/liabilities	(2,259)	23,164	(2,130)	14,840
Net of tax liabilities/(assets)		(2,259)		(2,130)
Net deferred tax liabilities		20,905		12,710

Movement in deferred tax during the year

	1 October 2009 £000	Recognised in income £000	Acquired in business combination £000	30 September 2010 £000
Property, plant and equipment	3,669	991	32	4,692
Intangible assets	6,234	(1,085)	8,563	13,712
Rolled-over gains	4,936	(176)	–	4,760
Derivative financial instruments	(1,728)	(150)	–	(1,878)
Employee benefits	(84)	84	–	–
Share-based payments	(317)	(64)	–	(381)
	12,710	(400)	8,595	20,905

Notes

continued

16 Deferred tax assets and liabilities continued

Movement in deferred tax during the previous year

	1 October 2008 £000	Recognised income £000	Acquired in business combination £000	30 September 2009 £000
Property plant and equipment	2 699	970	-	3 669
Intangible assets	6 234	-	-	6 234
Rolled-over gains	4 866	71	-	4 937
IAS 39 derivative financial instruments	(354)	(1 375)	-	(1 729)
Employee benefits	(84)	-	-	(84)
Share-based payments	(259)	(58)	-	(317)
	13 102	(392)	-	12 710

17 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans

The total expense relating to these plans in the current year was £114 000 (2009 £88 000)

Share-based payments

The Company operates 3 share option schemes. The CareTech Holdings 2005 Approved Share Option Scheme ("The Approved Scheme"), the CareTech Holdings 2005 Unapproved Share Option Scheme (The Unapproved Scheme) and the CareTech Holdings 2005 Share-Save Scheme ("the SAYE Scheme").

Options granted under the above schemes together with those remaining at 30 September 2010 are as follows

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2010	Options exercised to 30 Sept 2010	Options remaining 30 Sept 2010	Option price (pence)
13 October 2005 ¹	Approved Scheme	627 375	(282 457)	(221 457)	123,833	169
7 November 2005 ¹	SAYE Scheme	186 033	(43 519)	(142 514)	-	136
2 August 2006 ¹	Approved Scheme	52 427	(43 764)	(3 424)	5,239	292
2 August 2006 ¹	Unapproved Scheme	8 220	(8 220)	-	-	292
17 January 2007 ¹	Approved Scheme	162 885	(102 307)	(23 236)	37,342	345
17 January 2007 ¹	Unapproved Scheme	18 263	(7 574)	(5 785)	4,904	345
21 March 2007 ¹	Approved Scheme	6 077	-	-	6,077	452
1 February 2008	SAYE Scheme	101,397	(71 121)	-	30,276	440
2 May 2008	Approved Scheme	114 070	(54 394)	(138)	59,538	410
2 May 2008	Unapproved Scheme	23 843	(13 967)	-	9,876	410
14 April 2009 ²	Unapproved Scheme	92 308	-	-	92,308	0.5
4 August 2009	Approved Scheme	191 121	(34 008)	-	157,113	332.5
4 August 2009	Unapproved Scheme	165 050	(22 460)	-	142,590	332.5
12 August 2009	SAYE Scheme	202 069	(44 639)	-	157,430	254
3 August 2010	Approved Scheme	283 754	(1 868)	-	281,886	305
3 August 2010	Unapproved Scheme	210 653	-	-	210,653	305
3 August 2010 ²	Unapproved Scheme	92 308	-	-	92,308	0.5

1 Scheme grant of options which have reached maturity

2 Grant of nominal cost options subject to the terms of the unapproved scheme amended rules which include specific performance criteria determining the level and extent of exercisability. These criteria are set out below

Over the performance period if

- (i) share price growth is less than 50% then the option shall not vest and shall not be exercisable and the option shall lapse
- (ii) share price growth is equal to 50% then the option shall vest and become exercisable over 33% of the shares under option
- (iii) share price growth is equal to 75% then the option shall vest and become exercisable over 50% of the shares under option
- (iv) share price growth is equal to 100% then the option shall vest and become exercisable over 100% of the shares under option and
- (v) share price growth falls between the above share price targets then the extent to which the option will vest and the number of shares under option in respect of which the option may be exercised will be determined on a straight-line basis between these points

Approved and Unapproved scheme options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary other than nominal cost options which may become exercisable at the earliest after a period of 30 dealing days following the 3rd anniversary of being granted. SAYE scheme options are normally exercisable within 6 months following the 3rd anniversary of the date of grant.

17 Employee benefits continued

The CareTech Holdings 2005 Approved Share Option Scheme

The number and weighted average exercise price of share options is as follows

	2010		2009	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	513,606	2 93	582 463	2 48
Granted during year	283,754	3 05	191,121	3 33
Lapsed during year	(60,237)	(3 53)	(77 818)	(3 38)
Exercised during year	(66,095)	(2 31)	(182 160)	(1 71)
Outstanding at end of year	671,028	2 99	513 606	2 93
Outstanding and exercisable at end of year	172,491	2 21	171 793	1 73

The options outstanding at 30 September 2010 were exercisable at prices between 169p and 452p. The weighted average remaining contractual life of those options yet to vest is 2.2 years.

During the year ended 30 September 2010, options were granted on 3 August 2010. The aggregate of the estimated fair values of the options granted on this date is £192 953.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

	2010	2009
Weighted average share price	£3 84	£3 30
Weighted average exercise price	£2 99	£2 93
Expected volatility	30%	30%
Expected life in years	3	3
Risk-free rate range	3%-5%	3%-5%
Dividend yield	1.1%	–

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

The CareTech Holdings 2005 Unapproved Share Option Scheme

The number and weighted average exercise price of share options is as follows

	2010		2009	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	290,612	2 32	50 326	3 67
Granted during year	302,961	2 12	257 358	2 13
Lapsed during year	(35,149)	(3 50)	(17 072)	(3 45)
Exercised during year	(5,785)	(3 45)	–	–
Outstanding at end of year	552,639	2 13	290 612	2 32
Outstanding and exercisable at end of year	4,904	3 45	–	–

The options outstanding at 30 September 2010 were exercisable at prices between 0.5p and 410p. The weighted average remaining contractual life of those options yet to vest is 2.3 years.

During the year ended 30 September 2010, options were granted on 3 August 2010. The aggregate of the estimated fair values of the options granted is £284 475.

Notes

continued

17 Employee benefits continued

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. With the exception of the nominal cost share options, the estimate of the fair value of the services received is measured based on the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

	2010	2009
Weighted average share price	£3.84	£3.30
Weighted average exercise price	£2.13	£2.32
Expected volatility	30%	30%
Expected life in years	3	3
Risk-free rate range	3%-5%	3%-5%
Dividend yield	1.1%	-

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

The estimate of the fair value of the services received in relation to the granting of the nominal cost share options is measured by reference to the Monte Carlo simulation model.

The CareTech Holdings 2005 Save As You Earn Scheme

The number and weighted average exercise price of share options is as follows:

	2010		2009	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	252,429	2.83	233,579	2.56
Granted during year	-	-	202,069	2.54
Lapsed during year	(57,848)	(2.96)	(47,580)	(4.48)
Exercised during year	(6,875)	(1.36)	(135,639)	(1.36)
Outstanding at end of year	187,706	2.84	252,429	2.83
Outstanding and exercisable at end of year	-	-	6,875	1.36

The options outstanding at 30 September 2010 were exercisable at prices between 136p and 440p. The weighted average remaining contractual life of those options yet to vest is 1.6 years.

During the year ended 30 September 2010, no options were granted.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

	2010	2009
Weighted average share price	£3.84	£3.30
Weighted average exercise price	£2.84	£2.83
Expected volatility	30%	30%
Expected life in years	3	3
Risk-free rate range	3%-5%	3%-5%
Dividend yield	1.1%	-

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

18 Share capital

	2010 £000	2009 £000
Allotted, called up and fully paid		
49,585,472 ordinary shares of 0.5p each	248	-
44,856,717 ordinary shares of 0.5p each	-	225
53,402 deferred shares of 0.5p each	-	-
	248	225

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to 1 vote per share at meetings of the Company.

18 Share capital continued

Movements in the number of issued shares were as follows

	2009				
	At 1 October 2008	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2009
Ordinary shares of 0.5p each	44,538,918	–	317,799	–	44,856,717
Deferred shares of 0.5p each	53,402	–	–	–	53,402

	2010				
	At 1 October 2009	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2010
Ordinary shares of 0.5p each	44,856,717	900,000	78,755	3,750,000	49,585,472
Deferred shares of 0.5p each	53,402	–	–	–	53,402

On 8 October 2009 the Company issued 900,000 ordinary shares of 0.5p each to the vendors of Beacon in satisfaction of consideration due under the terms of the 2008 Beacon acquisition agreements

On 15 March 2010 £15m before expenses was raised through the placing of 3,750,000 ordinary shares of 0.5p each at 400p per share

Reserves

Share premium

During the year £353,000 (2009: £186,000) of transaction costs associated with the issue of new shares has been charged to the share premium account

Merger reserve

The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company. The movement in the year ended 30 September 2010 arises in respect of shares issued in the year as final consideration for the acquisition at Beacon Care Holdings Limited and Beacon Care Investments Limited in 2008 net of costs of £346,125.

19 Dividends

The aggregate amount of dividends comprises

	2010 £000	2009 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,416	1,204
Interim dividends paid in respect of the current year	910	714
Aggregate amount of dividends paid in the financial year	2,326	1,918

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 3.66p per share (£1,814,828) (2009: 3.10p per share (£1,416,000)).

20 Acquisitions

(a) Acquisitions during 2010

The following acquisitions during the year have been accounted for as business combinations under IFRS 3 (revised)

Name	Date of acquisition	% of equity acquired
Roborough House Limited	8 December 2009	100
Franklin Homes Limited	6 April 2010	100
Family Assessment Services (Birmingham) Limited	20 April 2010	100
Greenfields Care Group Limited	28 May 2010	100
St Michael's Support and Care Limited	9 June 2010	100
Outlook Fostering Services Limited	11 June 2010	100
Prestwood Residential Homes Limited	20 July 2010	100
Park Foster Care Limited	12 August 2010	100
Branas Isaf (Holdings) Limited	18 August 2010	100
Coveberry Limited (known as 'Uplands')	23 September 2010	100

In view of the large volume of relatively small acquisitions in the financial year, information is presented in aggregate.

Contingent consideration is payable dependent upon various factors which are to be determined in future financial periods. Post-acquisition earnings form the basis for determining the amount of payments. The range of outcomes is estimated to be between £nil and £7725,000.

Notes

continued

20 Acquisitions continued

The following provisional fair value table summarises the various acquisitions made during the financial year

	Book values £000	Fair value adjustment £000	Fair value £000
Intangible fixed assets (note 10)	–	23 932	23 932
Property plant and equipment (note 9)	22 708	6 008	28 716
Debtors	3 200	(225)	2 975
Cash	4 350	–	4 350
Creditors			
Trade and other payables	(249)	–	(249)
Corporation tax	(1 057)	–	(1 057)
Accruals and other creditors	(3 317)	(943)	(4 260)
Deferred tax	(39)	(8 556)	(8 595)
			45 812
Satisfied by			
Cash paid			36 904
Deferred and contingent consideration			15 285
Bargain purchase credit			3 828
Goodwill recognised on acquisition			(10 205)
			45 812

The book values of the assets and liabilities were extracted from the underlying accounting records of the acquired entities on the date of acquisition. The fair value adjustments made to intangible fixed assets, property plant and equipment, debtors and creditors are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property plant and equipment. These acquisitions contributed revenue of £6 089 000 and EBITDA of £1 869 000 to the Group's result for the year ended 30 September 2010.

Goodwill arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to intangible assets and property plant and equipment, together with synergies expected to arise from combining operations, workforce in place and other intangible assets which do not qualify for separate recognition.

The bargain purchase credit is recognised within administrative expenses in the consolidated income statement and it represents the excess of assets and liabilities acquired (at fair value) over the fair value of consideration.

Each of the acquisitions was undertaken to enhance the Group's position in the industry. In each case control was obtained through the acquisition of the entire issued share capital.

(b) Acquisitions during 2009

On 16 January 2009 the trade and certain assets of a step-down mental health business known as Lyndhurst were acquired and give rise to the following fair value table:

	Plant and equipment £000	Properties acquired £000	Fair value adjustment £000	Fair value £000
Property plant and equipment	40	4 371	1 458	5 869
Consideration				
Cash consideration				5 417
Costs of acquisition				452
				5 869

The fair values of properties reflect their value on a going concern basis.

During the year following acquisition, revisions to property and contractual obligations were required as fair values were finalised.

Following acquisition, Lyndhurst contributed EBITDA of £545 000 to the Group's result for the year ended 30 September 2009.

(c) Reconciliation to Consolidated Cash Flow Statement

	2010 £000	2009 £000
Cash consideration paid on acquisitions in the year	36,904	5 869
Cash consideration paid on previous year's acquisitions	–	2 842
Net cash acquired	(4,350)	–
	32,554	8 711

20 Acquisitions continued

(d) Deferred and contingent consideration payable

	2010 £000	2009 £000
Due within 1 year	14,735	6 868
Due in more than 1 year	600	–
	15,335	6 868

Regarding the current year amounts due within 1 year include £7 500 000 in respect of a currently exercisable one-way option to acquire freehold property entered into by the Group at the same time as an acquisition. This has been incorporated in the acquisition accounting applied and therefore forms part of the consideration. The decision to exercise is entirely at the discretion of the Group.

(e) Proforma results

The result for the combined entity for the year as though the acquisition date for all business combinations had been the beginning of the year is as follows

	2010 £000	2009 £000
Revenue	111,302	83 636
Operating profit	22,449	18 565

21 Financial Instruments

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Group which primarily relate to credit, interest and liquidity risks which arise in the normal course of the Group's business.

Credit risk

Financial instruments which potentially expose the Group to credit risk consist primarily of cash equivalents and trade receivables. Cash equivalents are deposited only with major financial institutions that satisfy certain credit criteria.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are carried out on all significant prospective customers and all existing customers requiring credit beyond a certain threshold. Varying approval levels are set on the extension of credit depending upon the value of the sale.

Where credit risk is deemed to have risen to an unacceptable level, remedial actions including the variation of terms of trade are implemented under the guidance of senior management until the level of credit risk has been normalised.

The Group provides credit to customers in the normal course of business with a provision for specific doubtful receivables. The balance includes the amounts considered recoverable which also equals their fair value. The Group does not require collateral in respect of financial assets. During the year there was no charge to the income statement for bad or doubtful debts (2009: £nil).

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables as at 30 September, aged as follows:

	2010 £000	2009 £000
Not due	5,482	4 010
Not more than 3 months past due	1,447	3 145
More than 3 months but not more than 6 months past due	–	14
More than 6 months past due	–	–
Trade receivables (note 12)	6,929	7 169

Interest rate risk

The Group finances its operations through called-up share capital, retained profits, bank borrowings and the sale of assets, if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate exposures between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. As at 30 September, the Group carried 6 hedging instruments, details of which are as follows:

- A 4-year floating rate swap of £35m with a 2-year counterparty discretionary extendable period and reducing in pre-determined intervals commencing 19 October 2006, at LIBOR with a cap rate of 5.75% and a floor rate of 4.78%.
- A 5-year floating rate swap of £20m commencing on 28 September 2007 at LIBOR with a cap rate of 6.40% and a floor rate of 5.30%.
- A 5-year swap of £15m commencing 31 July 2008 at LIBOR fixed at 5.25% until December 2009 and rising to 5.99% thereafter.
- A 3-year interest rate cap of £22m effective from 1 July 2010 at LIBOR with a cap rate of 1.8% to 1 April 2011 rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract.
- A 3-year interest rate cap of £22m effective from 1 July 2010 at LIBOR with a cap rate of 1.8% to 1 April 2011 rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract.
- A 3-year interest rate cap of £11m effective from 1 July 2010 at LIBOR with a cap rate of 1.8% to 1 April 2011 rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract.

Each of the 3-year interest rate caps are designated as effective cash flow hedges. The fair value of these at the reporting date was £nil. The risk being hedged is the variability of cash payments for interest under floating rate loans until 23 April 2013.

Notes

continued

21 Financial instruments continued

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has available bank facilities sufficient with cash flow from profits to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities. The following table indicates contractual cash flow maturities.

	2010					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	Less than 1 year £000	1-5 years £000	More than 5 years £000
Trade and other payables	—	(24,821)	(13,731)	(13,731)	—	—
Secured bank loans	5%	(120,934)	(145,816)	(11,632)	(134,184)	—
Finance lease liabilities	11%	(2,321)	(2,720)	(1,035)	(1,685)	—
Deferred and contingent consideration	—	(15,335)	(7,835)	(7,235)	(600)	—
Derivative financial instruments	—	(6,314)	(6,314)	(2,877)	(3,437)	—
		(169,725)	(176,416)	(36,510)	(139,906)	—

	2009					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	Less than 1 year £000	1-5 years £000	More than 5 years £000
Trade and other payables	—	(18,741)	(9,211)	(9,211)	—	—
Secured bank loans	5%	(95,724)	(115,076)	(10,849)	(104,227)	—
Finance lease liabilities	11%	(1,986)	(2,964)	(731)	(2,233)	—
Deferred and contingent consideration	—	(6,868)	(3,368)	(3,368)	—	—
Derivative financial instruments	—	(6,175)	(6,175)	(2,904)	(3,271)	—
		(129,494)	(136,794)	(27,063)	(109,731)	—

Capital risk management

The Group manages its capital to ensure that activities of the Group will be able to continue as going concerns whilst maximising returns for Stakeholders through the optimisation of debt and equity.

The Group's capital structure is as follows:

	2010 £000	2009 £000
Net debt	113,247	93,389
Equity	70,026	47,414

Foreign currency risk

The Group operates entirely in the UK and is not exposed to any foreign currency risks.

Sensitivity analysis

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

At 30 September 2010, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax by approximately £309,000 (2009: £257,000). Hedging instruments have been included in this calculation.

Fair values

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

	Carrying amount 2010 £000	Fair value 2010 £000	Carrying amount 2009 £000	Fair value 2009 £000
Loans and receivables				
Cash at bank and in hand (note 13)	10,008	10,008	4,321	4,321
Trade receivables (note 12)	6,929	6,929	7,169	7,169
Amortised cost				
Trade payables (note 15)	(3,271)	(3,271)	(3,605)	(3,605)
Secured bank loans (note 14)	(120,934)	(120,934)	(95,724)	(95,724)
Finance lease liabilities (note 14)	(2,321)	(2,321)	(1,986)	(1,986)
Held at fair value				
Derivative financial instruments	(6,314)	(6,314)	(6,175)	(6,175)

21. Financial instruments continued

Where market values are not available fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates with the following assumptions being applied

- for trade and other receivables and payables with a remaining life of less than 1 year the carrying amount is deemed to reflect the fair value
- for cash and cash equivalents the amounts reported on the balance sheet approximates to fair value
- for secured bank loans at floating rates the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the marketplace and
- for finance lease liabilities all amounts are due within 5 years and are on terms similar to those estimated to be achievable in the market

22 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2010		2009	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	5,982	146	4,760	36
Between 1 and 5 years	19,920	244	16,344	79
More than 5 years	157,053	–	147,483	–
	182,955	390	168,587	115

In August 2004 the Group guaranteed the rental payments arising on certain 35-year property leases following the sale and leaseback of 26 freehold properties by CareTech Community Services Limited

In February 2002, CareTech Community Services Limited guaranteed the rental payments arising on certain 35-year property leases following the sale and leaseback of 4 freehold properties by that Company

During the year the following was recognised as an expense in the income statement in respect of operating leases

	2010		2009	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	5,289	99	5,056	77
Adjustment for minimum future lease payment uplifts (note 4)	1,560	–	1,654	–
Total recognised in the consolidated statement of comprehensive income	6,849	99	6,710	77

23 Related parties

Leighton House

CareTech Community Services Limited entered into a lease agreement in 1998 with F. Sheikh and H. Sheikh, both Directors, concerning the Group's use of Leighton House, Potters Bar. The annual rent charged under the lease is £72,348 (2009: £72,348).

Transactions with key management personnel

Remuneration of key management personnel

	£000
Salary	1,136
Benefits	186
Bonus	204
Total short-term remuneration	1,526
Post employment benefits	41
Share-based payments	284
Fees	152
	2,003

Directors of the Company and their immediate relatives control 29% of the voting shares of the Company

Directors' emoluments are set out on page 23

24 Post-balance sheet events

On 13 December 2010 the Group acquired the whole of Care UK's children's fostering operations for £2.8m. On the same day the Group also acquired Phoenix Therapy and Care Ltd which operates throughout Scotland providing care to individuals with spinal or brain injuries.

Notes

continued

25 Accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(a) Judgments

The critical judgments are considered to be the following:

- properties are carried at historic cost; and
- disclosure of adjustments in order to assist users' understanding of the financial statements.

(b) Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Group's accounting policies, the Directors have made the following estimates and judgments which have the most significant effect on the amounts recognised in the financial statements:

Goodwill

The Directors use their judgment to determine the extent to which goodwill has a value which will benefit the performance of the Group over future periods. To assist in making this judgment, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill, using discounted cash flow forecasts to derive the "value in use" to the Group of the capitalised goodwill. In the assessment undertaken in 2010, value in use was derived from discounted 10 to 20-year cash flow projections using a year-on-year growth rate of 0% and discount rates relevant to the cost of capital adjusted for risks associated with the cash-generating unit. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions of discount rates, growth rates, expected changes to costs and selling prices used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill.

Customer relationships

The assessment of the future economic benefits generated from customer relationships, and the determination of the related amortisation profile, involves a significant degree of judgment based on management estimation of future potential revenue and profit and the useful lives of the assets. Annual reviews are performed to ensure the recoverability of these intangible assets.

Property, plant and equipment

It is Group policy to depreciate property, plant and equipment to their estimated residual value over their estimated useful lives. This applies an appropriate matching of the revenue earned with the capital costs of delivery of services. A key element of this policy is the annual estimate of the residual value of such assets and, in particular, of freehold property. Similarly, the Directors estimate the useful life applied to each category of property, plant and equipment which, in turn, determines the annual depreciation charge. Variations in residual values or asset lives could impact significantly Group profit through an increase in the depreciation charge.

Current asset provisions

In the course of normal trading activities, judgment is used to establish the net realisable value of various elements of working capital, principally trade receivables. Provisions are established for bad and doubtful debts. Provisions are based on the facts available at the time and are also determined by using profiles, based upon past practice, applied to aged receivables.

In estimating the collectability of trade receivables, judgment is required, assessing their likely realisation, including the current creditworthiness of each customer and related ageing of past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration of its financial condition, credit ratings or bankruptcy.

Deferred taxation

The Group has recognised deferred tax assets in respect of temporary differences arising. This requires management to make decisions on the recoverability of such deferred tax assets based on future forecasts of taxable profits. If these forecast profits do not materialise, or there are changes in the tax rates or to the period over which the losses or timing difference might be recognised, the value of the deferred tax asset will need to be revised in a future period.

Contingent consideration

The Directors use their judgment to determine the extent to which contingent consideration will be payable. To assist in making this judgment, the Directors use all available information when preparing these financial statements.

Company Statement of Comprehensive Income

for the year ended 30 September 2010

	2010 £000	2009 £000
Profit for the year	2,086	3,924
Total comprehensive income for the year attributable to equity shareholders of the parent	2,086	3,924

Company Statement of Changes in Equity

for the year ended 30 September 2010

	Note	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2008		223	38,543	5,037	3,345	47,148
Total comprehensive income		–	–	–	3,924	3,924
Dividends	27	–	–	–	(1,918)	(1,918)
Equity settled share-based payments charge		–	–	–	209	209
Share issue proceeds		2	309	–	–	311
At 30 September 2009		225	38,852	5,037	5,560	49,674
At 1 October 2009		225	38,852	5,037	5,560	49,674
Total comprehensive income		–	–	–	2,086	2,086
Dividends	27	–	–	–	(2,326)	(2,326)
Equity settled share-based payments charge		–	–	–	270	270
Share issue proceeds		23	14,663	3,461	–	18,147
At 30 September 2010		248	53,515	8,498	5,590	67,851

Financial Statements

Company Balance Sheet

at 30 September 2010

	Note	2010 £000	2009 £000
Non-current assets			
Investments	28	34,946	31 602
Current assets			
Trade and other receivables	29	34,410	18 554
Cash and cash equivalents		477	187
		34,887	18 741
Total assets		69,833	50 343
Current liabilities			
Trade and other payables	30	332	206
Deferred consideration		1,650	463
Total liabilities		1,982	669
Net assets		67,851	49 674
Equity attributable to equity shareholders of the parent			
Share capital	31	248	225
Share premium		53,515	38 852
Merger reserve		8,498	5 037
Retained earnings		5,590	5 560
Total equity attributable to equity shareholders of the parent		67,851	49 674

These financial statements were approved by the Board of Directors on 10 January 2011 and were signed on its behalf by



F Sheikh
Executive Chairman



D R Pugh
Finance Director

Company number 4457287

Company Cash Flow Statement

for the year ended 30 September 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Profit before tax, being operating cash flows before movement in working capital		2,086	3,924
Movement in debtors		–	112
Movement in creditors		126	207
Movement in intercompany balance		(13,350)	(2,023)
Net cash from operating activities		(11,138)	2,220
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(893)	(476)
Cash flows from financing activities			
Dividends paid	27	(2,326)	(1,918)
Proceeds from the issue of new shares (net of costs)		14,647	311
Net cash used in financing activities		12,321	(1,607)
Net increase in cash and cash equivalents		290	137
Cash and cash equivalents at start of year		187	50
Cash and cash equivalents at 30 September		477	187

Company Notes

26 Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Adopted IFRS standards under the historical cost accounting rules

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

(b) Taxation

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

(c) Turnover

Turnover represents management fees receivable in respect of the period to which management services relate

(d) Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair

value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

For cash-settled share-based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity

(e) Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

(f) Cash and liquid resources

Cash for the purpose of the cash flow statement comprises cash in hand and deposits repayable on demand less overdrafts payable on demand

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market

(g) Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost less amounts written off

27 Dividends

The aggregate amount of dividends comprises

	2010 £000	2009 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,416	1,204
Interim dividends paid in respect of the current year	910	714
Aggregate amount of dividends paid in the financial year	2,326	1,918

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 3.66p per share, £1,814,828 (2009: 3.10p per share £1,416,000)

28 Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	31,602
Additions	3,074
Share-based payments charge in respect of subsidiary undertakings	270
At end of year	34,946

29 Trade and other receivables

	2010 £000	2009 £000
Amounts owed by Group undertakings	34,410	18,554
	34,410	18,554

30 Trade and other payables

	2010 £000	2009 £000
Other creditors	332	206
	332	206

31 Called-up share capital

	2010 £000	2009 £000
Allotted, called-up and fully paid		
49,585,472 ordinary shares of 0.5p each	248	-
44,856,717 ordinary shares of 0.5p each	-	225
53,402 deferred shares of 0.5p each	-	-
	248	225

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to 1 vote per share at meetings of the Company. Details in respect of the reserves are given in note 18 to the Group financial statements.

Company Notes

continued

32 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans

The total Company expense relating to these plans in the current year was £nil (2009 £nil)

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2009 £nil). The grants and related accounting treatment adopted by the Company is identical to that operated by the Group under IFRS 2 "share-based payments" (see note 17)

33 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 22 to 24. This analysis forms part of these financial statements

34 Staff numbers and costs

The Company has no employees (2009 none). Directors' emoluments are paid by a subsidiary undertaking

35 Related parties

The Company related-party transactions are disclosed in note 23 to the Group financial statements

Directors and Advisers

Company Number
4457287

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5th Floor Metropolitan House
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Hertfordshire EN6 1AG

Directors

Farouq Sheikh	(Executive Chairman)
Haroon Sheikh	(Chief Executive Officer)
David Pugh	(Group Finance Director)
Stewart Wallace	(Strategic Director)
Karl Monaghan	(Non-Executive Director)
Christa Echtle	(Non-Executive Director)
Mike Adams ⁽ⁱ⁾	(Non-Executive Director)
Richard Steeves ⁽ⁱⁱ⁾	(Non-Executive Deputy Chairman)

(i) appointed 17 June 2010
(ii) resigned 15 April 2010

Company Secretary
David Pugh

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