

# CareTech Holdings PLC

Annual Report and Accounts 2015

Registered number 04457287

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**High quality support and care for individuals who often have complex needs.**

**CareTech delivers safe and secure support of very high quality, ensuring that all our service users enjoy extraordinary days, every day.**

### **Purpose**

Delivering innovative social care on behalf of local authority and health service commissioners, CareTech has a long established reputation as a provider of high quality and safe services. CareTech offers a comprehensive outsourcing service to commissioners with the experience and commitment to provide exactly what is required.

Focusing on the high acuity social care population we support children and adults through solutions that are both individual and tailor made to each of our service users.

Our core services provide for people with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder and people who have one or more physical impairments. We deliver support through residential services and a wide choice of creative home based options.

Our children services cover assessment, residential care, education and fostering options, including specialist provision for very complex young people. We carefully and professionally support any child irrespective of their reasons for being in public care. We can provide the right solution for complex and difficult situations through our nationally recognised expertise in provision for children and young people who present with sexually offending behaviours or who have emotional and behavioural disorders. Our comprehensive service includes education in Ofsted registered schools of very high quality.

CareTech pioneered transition services for young people leaving care and for adults who are making the move into their own home after a lifetime in residential or institutional settings. We remain a national leader in the drive to enable people to live in a home of their own.









We believe in opportunity and have developed an enviable reputation as a leading provider and organiser of modern apprenticeships within exciting projects across the UK.

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## Good progress across the Group

### Financial and Operational Highlights

Highlights	Revenue	Underlying EBITDA <sup>(i)</sup>
	£124.3m	£32.5m
	 increased by 0.8% (2014 £123.3m)	 increased by 5.9% (2014 £30.7m)
	Underlying profit before tax <sup>(ii)</sup>	Underlying diluted earnings per share <sup>(ii)</sup>
	£22.0m	31.79p
	 increased by 11.7% (2014 £19.7m)	 increased by 2.5% (2014 31.01p)
	Cash inflows from operating activities before adjustment items	Overall care capacity increased by 42 <sup>(iv)</sup>
	£30.8m (2014 £30.3m)	2,116 places (2014 2,074)
	with net debt of £158.5m (2014 £166.1m)	
	Property portfolio	Final dividend per share
	£294m	5.60p
	independently valued (2014 £275m)	 increased by 3.7% (2014 5.40p)
	Statutory Financial Highlights	
Statutory financial highlights	EBITDA <sup>(iii)</sup>	Operating profit
	£26.8m	£17.8m
	 decreased by 5.3% (2014 £28.3m)	 decreased by 13.2% (2014 £20.5m)
	Diluted earnings per share	Cash inflows from operating activities
	13.80p	£28.3m
	 decreased by 42% (2014 23.85p)	(2014 £26.1m)

- (i) Underlying EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items
- (ii) Underlying profit before tax and underlying diluted earnings per share are stated before non-underlying items.
- (iii) EBITDA is operating profit stated before depreciation, share-based payments charge and amortisation of intangible assets.
- (iv) Overall capacity has increased by 42 reflecting the net of 45 additional beds now available and 48 beds with the acquisition of Spark of Genius, less 27 beds withdrawn for reconfiguration, 5 places less in small supported living packages and 19 reduction for carers not currently accepting children.

## Group at a glance

**The CareTech Group has evolved through a mix of organic and prudent acquisitive growth that has led to our current position as one of the best-established and reputable national social care providers. We have national coverage in a highly fragmented UK social care market. We cover the majority of social care spectrum except elderly care.**

**The total market value is estimated, (Laing and Buisson 2013) to be worth £7bn for children services and £8bn for the care of younger adults (below 65 years of age) in the learning disability and mental health categories. The private sector share of this market has developed through successful outsourcing of services and this trend is expected to continue. Local Authorities have largely protected their budgets for children and complex younger adults.**

### Adult Learning Disabilities

CareTech has always operated at the highest acuity range on the social care spectrum, providing individual tailor made solutions for people living in their own homes, residential care or independent supported living schemes. We believe that we should continue supporting those with the greatest need and this accords with local authority commissioning trends.

Adults with learning disabilities are increasingly being provided with direct funding to enable them to purchase their own care and support. We work actively with service users and advisory bodies to deliver self-directed support packages and see this as an increasingly important aspect of our service model, as well as offering commercial opportunity.

For many people with the most complex intellectual or physical challenges, residential care will continue to be the preferred option although the services will change in their approach as we move toward a more enabling, modern type of service. An alternative to residential care is the opportunity for people to live in a home of their own, sometimes shared with others. CareTech is a leader in the provision of supported living and offers packages of individualised self-directed support to people in their own homes.

### Foster Care

"Foster Care is on a rising trend in terms of both numbers placed in foster care and expenditure by local authorities." Laing and Buisson 2013.

Foster Care is undoubtedly the best care solution for most "looked after" children. Most children thrive in foster care where they are supported within an ordinary family home and with trained foster carers. CareTech provides for both mainstream and specialist foster care through local agencies across the UK. Unusually we offer a highly respected service for physically and intellectually disabled children as well as support for children with sensory impairments. We provide foster care family assessments and ongoing support to children who remain with their birth families and in their family home.

### Mental Health

Mental health provision continues to dominate the health and social care agenda. Good mental health is a significant contributor to a healthy community and national economy, while mental ill health is devastating to individuals and their families. Most commissioners are driven by a wish to reduce patient time in acute care and rely on creative outsourcing to dramatically cut the cost of mental health care in hospital and within the criminal justice system.

CareTech's mental health team works in partnership with the NHS and social service departments to ensure a successful transition out of acute care and the prison service, delivering pathways to an ordinary life. We also have an outstanding track record for diverting people away from acute care and supporting them in their own homes. CareTech's highly effective care teams are developing new ways to offer community support solutions and we believe that this will be an important growth platform in years to come.

### Young People Residential Services

For a relatively small number of children, residential care offers a safe and helpful solution for their care needs and CareTech has developed an extensive range of highly technical care environments where those children will thrive.

Our residential provision offers high staff ratios and highly skilled carers, capable of ensuring both safety and progression. These are high cost services where we aim for an intensive period of care and a strict timetable that delivers results at a fair price to commissioners. As far as practicable we aim to help these children move into a more normalised family style environment as soon as it is wise to do so.

These services are highly intensive operations with exceptional staff ratios and include on site or dedicated educational facilities.

## Learning Services

### - EQL Solutions and Dawn Hodge Associates

Since modern apprenticeships started several years ago we have witnessed a dramatic shift in the way young people enter the adult workforce. People are increasingly opting for an apprenticeship as an alternative to or as well as attending University. This was especially true of the Care Sector but a whole new generation of young people are now looking at the apprenticeship model as their further training of choice.

Through acquisition and the development of established apprenticeship providers CareTech has embraced the opportunity to capitalise on this change and to work closely with government agencies to improve the quality and skill base of our national workforce. We have chosen to call our apprenticeship scheme a Learning Service to reflect the aspiration of the young people we work with.

Although EQL Solutions provide training across the whole workforce we have naturally developed expertise within the very extensive social care sector.

Learning services addresses an adult social care workforce in England of some 1.16m people, 905,000 of whom work within the independent sector (Skills for Care 2013).

There are 17,300 organisations providing Adult Social Care in England and the majority of these are operating at far too low a scale to deliver their own training or apprenticeship programmes. EQL Solutions and Dawn Hodge Associates, which was acquired in the year, have significant market presence in social care and are well positioned to support both smaller companies as well as corporate providers.

The Government aims to increase the number of apprenticeship starts for younger people and has committed to providing an additional £40m for 20,000 new higher apprenticeship starts in the current (2015 /16) academic year.

## Client Focused Innovative Care Pathway Approach

Care and support is characterised by optimism and a genuine belief in the abilities of our service users. Everyone we support has an opportunity to make progress in their lives and our professional teams work hard to help those people understand how to move forward. Many years ago we began to describe our services as a Care Pathway, making clear our intention to break away from the old belief that care is for life. We have delivered on this commitment and everyone we support, from young children to profoundly disabled adults, shares our dream to maximise their independence. This is great for service users, rewarding for our staff and strongly supported by those who commission and sponsor our services.

<b>Adult services</b> <b>Social care services for adults over the age of 18</b>	
<b>Adult Learning disabilities</b> Care capacity 2015  <b>1,496</b>  2014 [1,450]	Split by: <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community support services</li> </ul>
<b>Mental Health</b> Care capacity 2015  <b>114</b>  2014 [151]	Split by: <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community outreach</li> </ul>
<b>Children services</b> <b>Social care services for children and Young People up to the age of 18</b>	
<b>Foster Care</b> Care capacity 2015  <b>301</b>  2014 [320]	Split by: <ul style="list-style-type: none"> <li>- Residential care of children and young people</li> <li>- Family assessments in the home</li> </ul>
<b>Young People Residential Services</b> Care capacity 2015  <b>205</b>  2014 [153]	Split by: <ul style="list-style-type: none"> <li>- Residential care of children and young people</li> <li>- Education services for children and young people</li> </ul>
<b>Learning Services</b>	Split by: <ul style="list-style-type: none"> <li>- Pre employment programmes</li> <li>- Development programmes</li> <li>- Apprenticeships</li> </ul>

## **Placing People in the Care of Organisations That You Can Trust**

The business of care is predicated on relationships, as much as it is on the practical support and guidance that we offer on a daily basis. Troubled children need the warmth and challenging support of their care workers while disabled adults make best progress within the trust that a great relationship brings.

We are also mindful that social workers will prefer to place people in the care of organisations that share their commitment to optimism for service users, that they can rely on and deliver outstanding value.

### **Quality and Expertise**

Quality is not simply compliance with the requirements of regulation, although that remains important. Our approach is to employ well qualified and skilled professionals who can ensure that we consistently exceed the expectation of our service users, their families, social workers and commissioners.

### **Innovative Care Pathways**

One of the characteristics that differentiates CareTech from the average provider is our commitment to opportunity. Long before it became fashionable we introduced the concept of a Care Pathway to reflect our optimism that users of our services can make progress in their lives. We were never content to accept that someone in residential care should always be in residential care and developed alternatives at an early stage in our development as a Group.

### **Strong Brand**

Financial security, probity and reliability combine to offer confidence in the CareTech brand. We offer high quality services with a strong ethical base with the benefits of scale, operating within friendly and trusted local service businesses.

### **National Presence**

CareTech is very well known as a care company in public ownership that operates throughout England, Scotland and Wales. Our national presence is reinforced through conferences and publications where the CareTech view is frequently sought and taken into account.



## **Chairman's Statement**

**Farouq Sheikh**

**Chairman**

### **A busy 2015 creating a springboard for further growth**

I am pleased to present our results for the year ended 30 September 2015. This has been a successful and exceptionally busy year the key highlights which have been:-

- Share placing funds raised of £21m
- Strengthening of management team
- Amend and extend banking facilities on improved terms
- Increased organic initiatives
- Completion of two acquisitions during the year and one in December 2015

Whilst the management team has been actively involved with these important initiatives it is really pleasing to note that we have continued to maintain our position as an excellent care provider with our high quality ratings across the Group. Moreover, we have extended our care pathways through successful outcomes for the people we support. As a result we have improved our occupancy rates during the year which has led to an increase in our underlying EBITDA margin.

This has produced a credible set of financial results where:-

- Underlying EBITDA has increased by 5.9% to £32.5m
- Underlying PBT has increased by 11.7% to £22m
- Underlying diluted EPS had increased by 2.5%
- Full year dividend increased by 5% to 8.40p

All of the above mentioned initiatives have assisted the team in delivering a solid performance on both the key financial and non-financial metrics and puts the Group in the strong position to target double digit underlying EPS growth going forward.

CareTech Group has stood out within its peer group of providers as a company that can successfully combine quality, integrity and sound financial acumen and has consistently achieved high care quality ratings. Our credibility as the provider of choice has never been stronger and we continue our successful growth strategy with a confident outlook.

As announced in March 2015 the Company raised £21 million (before expenses) by way of a placing with new and existing institutional investors as well as Directors and certain Senior Executives. It was pleasing that the placing was oversubscribed and our plan was to invest the money in acquisitions within 12 months. Investment of the funds has been completed earlier than planned with two acquisitions in July 2015 (Spark of Genius and Dawn Hodge Associates) and one on 1 December 2015 (ROC North West).

In July the Group completed negotiations to improve its banking facilities and to extend the facility by a further two years to January 2019, with the addition of a £30m Accordion facility.

During 2015 we closed several services for reconfiguration which impacted the growth in Revenue. Offsetting this there are better fees following our reconfiguration cost saving initiatives and the time and attendance system has improved underlying EBITDA. The Group's Organic Development Programme will continue with further reconfigurations and for 2016 we have a strong pipeline of development opportunities.

CareTech joined AIM in 2005 and we are therefore celebrating our 10th year in the public markets. During this time the business has transformed from being very focused on supporting adults with a learning disability through residential and day care settings to one where today we cater for young people and children with complex needs across a range of settings, be it residential, supported living or community support. We focus on the most complex and vulnerable young people and the market for this client group stands at over £10bn. There is currently an undersupply of specialist beds in the niche area and the market is growing by almost 3% per annum.

Over the years we have developed a range of care pathways and helped many that we support to live more independently. This is a fantastic outcome for both us and the individuals that we support and it also helps local authorities meet the ever increasing cost of social care provision.

On joining AIM in September 2005 the company had a capacity of 435 places, an underlying EBITDA of £2.4m with our underlying diluted EPS of 4.1p. Today our capacity has increased almost five fold to 2,116, our underlying EBITDA has grown significantly to £32.5m today whilst underlying diluted EPS has risen to 31.79 pence per share. Underlying EBITDA and diluted EPS has grown by an impressive CAGR of 30% and 25% respectively since IPO.

Even with significant growth we have achieved to date we still have less than 2% of this very large and fragmented market. With the increasing regulatory burden, the opportunity for further consolidation is even more attractive. Given our experienced management team, our range of care pathways focused delivering positive outcomes for the individuals we support and our long established track record within the industry we are extremely well placed to be able to continue to do this going forward. This underpins our aspirations to deliver double digit EPS going forward.

## **Dividend**

The Group policy has been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share.

That growth in 2015 was 2.5% so the Board has proposed a final dividend of 5.60p (2014:5.40p) per share bringing the total dividend for the year to 8.40p (2014:8.00p) per share. This represents a full year increase of 5% year on year. The final dividend will be paid, subject to shareholder approval, on 9 May 2016, with an ex-dividend date of 3 March 2016 and an associated record date of 4 March 2016.

## **Our Board**

There have been no changes to the Board during the year. As a foundation for growth the Senior Executive Team at CareTech has been strengthened with the appointment on 14 April 2015 of John Ivers as Chief Operating Officer. We have made several other senior appointments underpinning the growth of the business.

During the year the Remuneration Committee and the Audit Committee were unchanged whilst Michael Hill left the Care Governance and Safeguarding Committee and the Clinical Director Dr. Junaid Bajwa and the Chief Operating Officer John Ivers both joined the committee.

## **Our People**

We have completed our planned evolution into two well defined operating divisions, Childrens and Adult Care, and this has generated organisational efficiencies. Simplifying the structure has also supported planning and service delivery with a more powerful approach to development.

Managers and front line colleagues have continued to deliver exceptional commitment during the year, working vigorously with commissioners to reduce costs while maintaining quality. The most striking achievement of our front line staff has been to ensure the continuing safety of our service users during a

period when demands for cost reduction could have put individuals at risk. Our continuing growth, measurable success and forward-looking approach are a reflection of the hard work and dedication of staff and managers throughout the organisation. I am always drawn to the achievements of our excellent front line staff, which is inevitable as we are first and foremost a care organisation. Their care and commitment would be much less without the dedicated support of our administrators and support teams whose hard work and energy is critical to the success of our company and the care we provide.

### **Outlook and Prospects**

We understand the market and have anticipated shifts in social and health policy. Our understanding of the social care environment remains strong and we are positioned to take further change in our stride and have an improved platform for growth.

With the money raised from Shareholders and our own free cash flow generated from the business, we have major investment plans for 2016 and beyond with key new organic developments and bolt-on acquisitions. Importantly, we have also strengthened our management team, offering a forceful blend of experience, commercial wisdom and dedication to care. I have no doubt that the next few years will see continuing growth and care excellence which will help deliver our target of double digit EPS growth going forward.



**Farouq Sheikh**  
Chairman  
20 January 2016

## Strategic Report

The directors present their Strategic Report on the Group for the year ended 30 September 2015. In preparing this report, the directors have complied with S414C of the Companies Act 2006. The Strategic report should be read in conjunction with the Strategic Review for the Group.

### Creating sustainable value in our markets

The Care Market in which the Group operates is a UK Market worth £15bn per annum across the Adult Services for adults over the age of 18 and Children services for Children and Young People up to the age of 18.

### Our Market

The principal driver for commissioners in local authorities and the NHS is value. This is interpreted by them as the optimum balance between quality and price, but has an underpinning criterion determined by "outcomes". CareTech has been aligned to this set of purchasing principals and we work closely with commissioners to ensure that we stay in tune with their approach to market management.

Most providers of social care have fewer than three services and this huge, fragmented range of providers dominates the market. However, the market has been steadily consolidating and a very small number of large "corporate" providers have emerged, with CareTech being one of the bigger players within the non-elderly care sector. Numerically the large providers will have a very small minority of the market capacity and all the evidence suggests that consolidation will continue, perhaps accelerating, during the foreseeable future.

Although the available resources to purchase social care remain largely static there is a known increase in demand across the whole spectrum, presenting purchasing bodies with a conundrum. One response has been to move money away from the NHS in order to allow local authorities greater purchasing power. However, the most significant change has been to a system of aggressive rationing. This has focused money on the areas of highest need such as complex children, very disabled or complex people with learning difficulties and hospital discharge schemes. This is where CareTech has developed its provision and helps to explain why spending cuts have had minimal impact on the Group.

<b>Adult Services</b>	
<b>Adult Learning Disabilities</b> <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community support services</li> </ul>	<b>Mental Health</b> <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community outreach</li> </ul>
<b>People</b> <b>1.4m</b> (85,000 in the UK cannot live independently)	<b>People</b> <b>2.4%</b> (of the UK population will be referred to a specialist psychiatric service)
Market for residential learning disabilities and supported living worth an annual  <b>£5.9bn</b>	NHS/LA total spend on mental health is worth an annual  <b>£14.4bn</b>
Market growth rate <b>5.5% pa</b>	Market growth rate <b>5.5% pa</b>

#### Children Services

<b>Foster Care</b> <ul style="list-style-type: none"> <li>- Fostering</li> <li>- Family Assessments in the home</li> </ul>	<b>Young People Residential Services</b> <ul style="list-style-type: none"> <li>- Residential care of children and young people</li> <li>- Education services for children and young people</li> </ul>	<b>Learning Services</b> <ul style="list-style-type: none"> <li>- Pre-employment programmes</li> <li>- Development programmes</li> <li>- Apprenticeship</li> </ul>
<b>People</b> <b>51,340</b> Placed in foster care in England	<b>People</b> <b>17,500</b> Children in England looked after outside foster care	<b>People</b> <b>510,000</b> Apprenticeship starts
Foster Care market across England worth <b>£1.1bn</b>	Residential children's market across England worth <b>£1.0bn</b>	Apprenticeship Budget <b>£1.6bn</b>
Market growth rate <b>1.5% pa</b>	Market growth rate <b>0.2% pa</b>	Market growth rate <b>9.1% pa</b>

\*Data from Laing and Buisson 2013 report.

## **A strategy to drive future growth**

Our Business Model represents how we aim to generate revenue and profit from our operations.

The Group aims to operate throughout mainland Britain in England, Wales and Scotland in partnership with local authorities and the NHS, facilitating the outsourcing process, driving value and removing risk.

### **Our Business Model**

During the period, the Group continued to develop and grow organically four existing operating divisions, which come under the two outcome-based sectors of Adult Services and Children Services. We have also expanded the Learning Services division through acquisition. The growth going forward is underpinned by the strong starting point that we have built carefully over the past few years. We continue to extend both our geographic coverage and our outcome based Care Pathway range of services organically and through the purchase and sale of properties to meet the needs of our marketplace, specifically the requirement for greater acuity service provision. This ensures that CareTech is in a very strong position to address the demands of our evolving marketplace.

### **Setting out our key strategic priorities**

We shall continue to improve the quality and scope of our services, increase market share and grow shareholder value.

### **Our Strategy**

Our understanding of the social care market and our relationships with local authority commissioners is vital to this objective and we are confident in the strength of our position. We are sensitive to the complex financial position that local authorities are in and their need to have trusted business partners who can help them deliver statutory duties efficiently and with care.

### **Social Care expertise**

Employing numerous qualified and skilled care workers, foster carers, teachers and managers, the CareTech front line teams are supported by a wide range of high level professionals such as social workers, nurses, therapists, psychologists and a skilled Medical Director with oversight of all interventions.

### **High quality**

The driver for social care is an organisation's ability to deliver high quality care, with reliable outcomes at a fair price. We believe that the market has recognised that CareTech offers the best possible balance between quality and value and understands the need for progressive thinking and innovation to deliver ongoing results.

### **Nationwide locations**

The CareTech strategy is to offer a strong national brand with local and regional service delivery points. This supports development of local relationships while offering the comfort and security of a well resourced and strong Group.

### **Excellent reputation**

The CareTech brand is strong and our extensive relationships across the UK are robust. This is reinforced by our presence at major industry events where we have been reliable sponsors and commentators. The most effective way that we sustain our reputation is by delivering what we promise for the people we support and by treating our staff well.

**High Occupancy**

CareTech services are in demand and occupancy has remained high despite fears of local authority austerity impacting referrals. What's more, the nature of referrals in recent years has been toward the more complex end of the spectrum.

**Continued growth**

It is well known that demographic trends show growth in social care in the foreseeable future.

**Shareholder value**

CareTech has delivered sustainable and reliable growth since the day it listed. It has aimed to be a defensible stock even in difficult times and for some time has offered a good quality dividend policy. We have every reason to believe that growth will continue and the management team remains enthusiastic about the Group's future.

Our KPIs help us to measure the Group's performance against its strategy and objectives.

<p>Underlying EBITDA</p> <p><b>£32.5m</b></p> <p>(2014: £30.7m)</p>	<p><b>How this is calculated</b></p> <p>Underlying EBITDA is the Earnings before Interest, Tax, Depreciation and Amortisation for the year excluding non-underlying items such as amortisation of intangible assets which are fully described in note (5) to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying EBITDA has improved by £1.8m or 5.9% year on year. This reflects the organic growth achieved by the core business which has been in part reduced by the reconfiguration work on some properties and improved margin and acquisitions.</p>
<p>Underlying profit after tax</p> <p><b>£18.3m</b></p> <p>(2014: £16.1m)</p>	<p><b>How this is calculated</b></p> <p>Underlying profit after tax is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets after tax which are fully described in note (5) to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying profit after tax has improved by £2.2m or 13.7% year on year. This reflects the improved underlying EBITDA and finance charges offset by an increased tax provision.</p>
<p>Underlying diluted EPS</p> <p><b>31.79p</b></p> <p>(2014: 31.01p)</p>	<p><b>How this is calculated</b></p> <p>Underlying diluted earnings per share is the underlying profit after tax (which is after adjusting for non-underlying items which are not considered to impact the trading performance of the Group) divided by the weighted number of ordinary shares which are fully described in notes (10) and (11) to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying diluted earnings per share has increased by 0.78 pence at 2.5% year on year. This is the increase in underlying profit after tax partly offset by the increase of 10 million shares from the share placement during the year to give a growth in earnings per share.</p>
<p>Net Debt</p> <p><b>£158.5m</b></p> <p>(2014: £166.1m)</p>	<p><b>How this is calculated</b></p> <p>Net Debt comprises the balance at the year end for cash and cash equivalents net of bank loans outstanding and finance lease and hire purchase contract monies outstanding and is fully described at the foot of the Consolidated Cash Flow Statement on page 53.</p> <p><b>Performance this year</b></p> <p>Bank debt at 30 September 2015 was £151.0m which is a reduction of £11.3m from 30 September 2014 of £162.3m with the reduction mainly due to some of the share placement monies remaining unspent at the year end. Finance leases at the year end were £7.5m (2014 £3.8m) with the increase due principally to the investment in 240 new home vehicles during the year. Net Debt in total reduced by £7.6m or 4.6% between 30 September 2014 and 30 September 2015.</p>
<p>Capacity</p> <p><b>2,116 places</b></p> <p>(2014: 2,074 places)</p>	<p><b>How this is calculated</b></p> <p>The Group's capacity is the total number of Adult Service and Children Service places that the Group is able to offer at that date. It is a total including residential care beds, independent supported living accommodation, community support service users and children that foster carers can currently look after.</p> <p><b>Performance this year</b></p> <p>Overall capacity has increased by 42 reflecting the net of 45 additional beds now brought into capacity and 48 beds which increased Childrens residential capacity with the acquisition of Spark of Genius, 27 beds withdrawn for reconfiguration, 5 places less in small supported living packages and a reduction of 19 for carers not currently accepting children with 18 of these occurring in the first half year.</p> <p>Spark of Genius also has capacity to provide education to 144 children but</p>



	this is not included in capacity.
Mature Estate Occupancy <b>93%</b> (2014:92%)	<b>How this is calculated</b> The Mature Estate Occupancy is the total number of Adult and Children Service Users placed in services that were open throughout the year. <b>Performance this year</b> The ratio has improved slightly to 93% and reflects the long length of stay that the majority of service users have in our services.
Blended occupancy <b>86%</b> (2014:86%)	<b>How this is calculated</b> Blended occupancy is the total number of Adult and Children Service Users actually placed as a % of the Group's total capacity and so reflects facilities undergoing development and reconfiguration. <b>Performance this year</b> The ratio has remained at 86% and reflects the additional beds in reconfigured services brought back into capacity and the reduction in fostering capacity where carers are unable to accept foster children currently.

## **Principal risks and our strategic response**

Social care is a long term contract with the public sector and is inherently free of risk so long as quality is maintained, outcomes are achieved and the price is right. However social care does carry risks that will always be at the forefront of our minds. The most obvious risk is that a tragedy will occur and that the company will be held to blame. To date this has not occurred but we take the risk very seriously. Our principal risk management strategy is to ensure that our staff are recruited well, are trained and supervised properly and are subject to rigorous quality oversight. In addition we know from experience that processes and documentation must be very carefully observed and constantly reviewed to ensure that it protects service users and provides the company with a defensible position in the case of tragedy.

These matters, along with general safeguarding are subject to intense scrutiny by our in house compliance and quality teams and Board level oversight.

## **Managing risk and mitigating risk**

Social care is not a high risk business proposition but there are several unique factors that could cause difficulties for the careless or casual provider. These centre on the way in which care and support is provided and the reliability of those front line staff who provide it. CareTech approaches these issues with considerable care and exceptional diligence, building in quality and training wherever it is required but also through its established scrutiny protocols and firm leadership. We care a great deal about what we do and have established a reputation for careful management of all those processes that could expose us to risk.

## **Our Risks**

All providers of health and social care are conscious of the need for management vigilance and the requirement to have a thorough commitment to delivering care that is safe and of a high quality. CareTech's approach to quality and safe service delivery is characterised by a mixture of a dedicated compliance team carrying out regular audits of inspection and a commitment to building quality into everything we do.

The market for the provision of social care services continues to be dynamic, presenting both risks and opportunities. The overall number of people needing support will increase, and a smaller proportion of them will be placed into residential services. Those who do need a residential care solution will have more complex needs and are likely to require a wider range of services, including clinical and therapeutic support. Our operational management teams are already focusing on the delivery of high quality care. As we move forward this will become increasingly specialised with the benefit of professional qualified care co-ordinators who will prepare and direct personalised care plans within the services.

Most service users will be supported in their own homes through domiciliary care or in more formal supported living arrangements. This is a major growth area for care providers and CareTech already has a solid reputation for its high quality and flexible solutions. We are building this to a higher level and refining our organisational structure to build more rapidly on our successes to date.

- **Service offer and user needs**

We have to create and staff a service offering which matches the needs of the service user and can be communicated to commissioners so it is carefully recorded locally at every service in order to reduce the risk of service users moving to other service providers.

- **Quality and safety**

We have to provide and deliver safe care of a high quality and the Group utilises Perry Scott Nash to audit and report monthly on Health and Safety matters as well as all RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) so that all incidents are recorded and acted upon.

- **Service value**

The service offer has to be provided to meet the needs of the commissioners at a fair price and this is coming under increased scrutiny as commissioners regularly review value for money so the Group communicates frequently with its commissioners locally.

- **Reputation**

The Group has to have a reputation for delivering a service that is good value and takes account of all risks. The Group maintains a Risk Register which includes all key risks, including reputational risk, and how they are mitigated through quality of service and good communication with service users and Local Authorities.

- **Growth funding**

So that the Group can keep growing adequate funding has to be anticipated and put in place and the Group ensures that all of its facilities are monitored and reviewed regularly in particular during its Budget and forecasting processes.

- **Manage debt**

The level of debt obtained to fund operations and ensure that growth can occur has to be carefully managed and the different forms of leasing and debt are reviewed quarterly when all of the covenants are also reviewed.

## **Our resources**

The key resources that we require to provide care are:-

### **People to provide care**

Staff and carers who have appropriate skills and qualities to look after children or adults in need of care and who remain fully trained.

### **People with skills to manage, train and support our people who provide care.**

Skilled staff to provide the management and training to our people who provide care.

### **Buildings, homes and land**

The land and buildings to provide accommodation for residential services or supported living.

### **Financial resources**

Financial stability to be able to employ the right staff and to provide the right land and buildings.

## **By order of the Board**



Farouq Sheikh  
Chairman  
20 January 2016

# **Chief Executive's Statement and Performance Review**

**Haroon Sheikh**

**Chief Executive Officer**

## **An improved Foundation for Growth**

### **Overview**

It gives me great pleasure to again report on a successful year that reflects the hard work of our management team, the enthusiasm of our staff and the support of our Board.

The Group has continued to build upon its solid foundations and remains in a strong position to continue as a leading provider of high quality specialist social care services in a large and growing UK market which remains fragmented.

The Group has continued to develop through organic growth and reconfigurations and with the two acquisitions in July 2015 and one acquisition in December 2015 it has made further encouraging progress during the year and has gained experienced management teams with proficient leaders. The new businesses have integrated and settled well, though our principal focus remains organic growth.

A key recent strategy has been the development of the Learning Services Division which has already had a positive impact on gaining new staff, their training and retention, and the addition of Dawn Hodge Associates has further improved this strategy.

### **Consolidation and creating new opportunities**

CareTech remains at the forefront of social care outsourcing across both Children and Adult services and in the year there has been a further increase in working closely with commissioners and regulators as the whole system is under stress from the changes that policy and financial pressure have brought.

National public policy continues to be a significant driver of local authority commissioning intentions and behaviour. For a number of years public policy has encouraged greater personalisation of health and social care for adults. Commissioners and leading providers are driving change that will mean offering people more choice and control over the care, treatment and support they receive while at the same time maintaining the quality and safety of those services.

Our care priorities drive successful outcomes for our service users and follow closely the guidance from central government.

Our key focus for delivering quality services and positive outcomes is supported by the following key factors:-

#### **Communication**

- We have open and frank dialogue with our service users, their families and social workers.

#### **Independence**

- In our social care and health contracts we aim to help our clients to return to an ordinary life. It may be children who can return to their birth families or live independently. It may be adults who we can help on the pathway to recovery following a mental health breakdown or people with learning disability who we can support towards independent living.

## **Housing care and support**

- We know that most people aspire to have a place of their own, employment and ongoing support. We have structured our services, developing new provision and creative partnerships with housing providers to enable these aspirations to be achieved whenever possible and we are tailoring training to assist young people and adults leaving our services to gain employment.

## **Self-directed support**

- It is pivotal to government policy that adults and children receiving social care are fully engaged in the support that they require. With some adults this extends to the provision of a cash sum enabling them to purchase their care and support directly. CareTech managers have been reviewing our systems and delivering training throughout the organisation to ensure that we are able to deliver the requirements of self-directed support.

## **Quality and dignity**

- CareTech has always delivered high quality care in exceptional premises. However, we have never been complacent about this and have undertaken many reviews to ensure that we deliver the right quality at an acceptable price. We have also learned a great deal from the experience of our NHS colleagues and developed a Dignity Test to ensure that our front line and administrative staff treat all our clients in ways that promote dignity.

## **Progress in the year**

The year has seen continued progress as the Group concentrates on the introduction of innovative new services developed in partnership with local authority commissioners from within our existing portfolio of properties or through new properties either purchased or rented for service users.

At the end of July 2015 the Group acquired the share capital of Spark of Genius and shortly afterwards Dawn Hodge Associates so the progress has been a mixture of organic development and acquisitions.

Spark of Genius is a Scottish based provider of residential care and education services for Young People with complex needs. Dawn Hodge Associates is an Ofsted Grade 1 care sector apprenticeship training provider based in the North West.

There have been a small number of asset disposals during the year where the service was not meeting commissioner aspirations and a reconfiguration was not possible or economically viable.

Our Adult Services have added 35 beds in the year, being 13 in Supported Living and 22 in Residential.

Children Services have added 10 beds in the year in two services with six beds and four beds.

The Group also continues to realise the benefit of organisational improvements that were put in place over the past few years. We have continued to strengthen the management structure and improve the efficiency of our processes following further investment in new systems which have gone live in the year such as the Time and Attendance system. We are seeing the benefits of new executive appointments and the Clinical Director role continues to have a positive impact across the services.

These improvements have put us in a strong position to benefit from a number of the commissioning opportunities by working in partnership with the NHS and Local Authorities.

## Care Pathway Range and Services

The Group's focus remains the provision of specialist social care. This is underpinned by a well-defined range of provisions which meet all of the commissioner requirements. These services are now even more extensive and focused on providing high quality care and positive outcomes for all of our service users.

The Group continued to develop and grow its existing four operating divisions, which come under the two outcome-based sectors of Adult services and Children services. We continue to extend both our geographic coverage and our outcome based Care Pathway range of services organically and through the purchase and sale of properties to meet the needs of our marketplace, specifically the requirement for greater acuity service provision. This ensures that CareTech is in a very strong position to address the demands of our evolving marketplace.

Following the acquisition of our second Learning Services division business, I am particularly delighted to report on the integration and development of our apprenticeship model. The team has already completed pioneering work by developing the apprenticeship model in social care, and the CareTech Aspire Programme which takes CareTech's care staff from the foundations of mandatory and statutory training to offer the opportunity to complete a Level 2 or Level 3 apprenticeship. At the year end, this programme had 460 CareTech apprentices undertaking the apprenticeship and has significant growth potential both within the Group and across the wider social care sector.

We remain committed to the growth of residential care solutions for adults and children with the most complex needs and the CareTech Group has embraced the development of home based solutions including foster care where demand for more specialist services remain strong. Our residential care services for children cater for young people with particularly difficult issues and offer a national service; with strong growth seen in Scotland including the addition of Spark of Genius which also has properties in the North East of England and Roc North West, which has care and educational services in the North West of England. Our adult services offer a solid and reliable provision across the whole spectrum of service offerings and we see a particular volume demand in the area of supported living, balanced by renewed demand for more specialised residential care solutions.

Our strategy is to offer a bespoke range of options so that we can maintain the Care Pathways that distinguish us from other providers.

## Overview of progress

Our focus during the past year has continued to be further building on the businesses which established the Care Pathways whilst introducing innovative new solutions to meet the challenges faced by care commissioners and then adding newly acquired businesses with complementary skills.

Capacity has increased by 42 places principally because we have continued to reconfigure services and acquired Spark of Genius. Occupancy levels within our mature services remain at a creditable 93%, or 86% when taking into account our services under development and transition; there is a 1% improvement on the previous year for the mature services.

Much has been written about personalisation and I felt it would be useful to set out our own understanding and commitment to personalisation.

Personalisation means “recognising people as individuals who have strengths and preferences and putting them at the centre of their own care and support” (Social Care Institute of Excellence).

The traditional service-led approach has often meant that people have not been able to shape the kind of support they need, or receive the right kind of help. Personalised approaches such as self-directed support and personal budgets involve enabling people to identify their own needs and make choices about how and when they are supported to live their lives.

Our two business divisions of Adult Services and Children Services comprise the following five care pathways.

### 1. Adult Learning Disabilities

Revenue	£75.7m (2014: £74.2m)
Underlying EBITDA	£24.5m (2014: £22.6m)
Capacity	1,496 (2014: 1,450)

Adult Learning Disabilities provides individually tailor-made solutions for people living in their own homes, residential care or independent supported living schemes. We can work with clients to deliver self-directed support packages.

For some people residential care will continue as the preferred option and we increasingly offer several types of supported living and packages of individualised self-directed support to people in their own homes.

This includes adult residential care homes, independent supported living and community support services.

The principal reason for the increase in underlying EBITDA of £1.9m was the reconfiguration of homes from Mental Health and their reopening late in the current financial year which improved the underlying EBITDA overall margin from 30.5% to 32.3%.

We have continued to work closely with commissioners and this has helped us to achieve our growth through the past year. We take a long-term view, recognising that change will continue and with this in mind I am pleased to report that the closure and redevelopment of some of our long stay residential provision has been a great success over the past year and will continue to meet the changing requirements of commissioners and families.

The market for high acuity care and the support of people with learning disability is growing year on year. Demand for low-level support has been impacted by the cuts in local authority expenditure but this is not an area of activity in which CareTech operates. Conversely, resources for those with the highest level of need are being maintained and increased in some local authorities.

During the past year we have developed 35 beds through reconfiguration of existing residential services. Further new provision is under development.

## 2. Mental Health

Revenue	£6.4m (2014: £7.3m)
Underlying EBITDA	£1.9m (2014: £2.5m)
Capacity	114 (2014: 151)

The reduction in capacity and revenue in Mental Health arises because there have been a number of services reconfigured and transferred to Adult Learning Disabilities.

Mental Health works in partnerships with the NHS to ensure a successful transition out of acute care, delivering pathways to independence. We have an outstanding track record for helping people away from acute care and supporting them in their own homes.

The adult services for this Care Pathway include a community based hospital, adult residential care homes, independent supported living and community outreach with some transitional services transferred within the Group.

Community Mental Health has always been a critical but relatively neglected area of social care. However, this is changing as the NHS drives to lower bed capacity and accelerated early discharge from acute psychiatric hospital care.

The growth of social care is certain and the response by Government to one of the key difficulties is progressing. There has been some progress in the removal of large numbers of learning disabled people from the controversial "Treatment and Assessment Centres" operating at various locations throughout the UK. CareTech has never operated any centres of this type but we understand that the CEO of NHS England has been tasked with ensuring that these centres are re-provided as a matter of urgency. CareTech is seeking opportunities to support the project and to offer a comprehensive solution within its community homes.

We are well positioned for further expansion in Mental Health and have a sustainable infrastructure to deliver growth.

## 3. Foster Care

Revenue	£9.8m (2014: £12.0m)
Underlying EBITDA	£2.4m (2014: £3.0m)
Capacity	301 (2014: 320)

Foster Care provide for both mainstream and specialist foster care in small supportive Groups across England and Wales for children with disabilities. We also provide foster care family assessments in the home rather than in a residential setting.

The reduction in capacity, revenue and underlying EBITDA in Foster Care arises due to the competitive nature of the market as well as because of the change to family assessments in the home and also due to capacity being reported on the new basis of children that carers are able to look after rather than the number they are approved for.



“Foster Care is on a rising trend in terms of both numbers placed in foster care and expenditure by local authorities.” Laing and Buisson 2013.

This trend is driven by cost considerations, where fostering is considerably less expensive than residential care and by perceived quality care factors. It is generally held that fostering in an ordinary family home delivers better quality than any residential setting. However, the rising tide of fostering has been constrained by the challenge of finding foster carers with the right skill and motivation alongside preference by social workers to place within local authority services rather than the independent sector.

In 2013, 46% of children placed in foster homes were outsourced to the independent sector. This compares with 67% placed in residential homes operated by independent providers.

Our Foster Care teams and Young People Residential teams are working alongside each other to offer the best outcomes for Young People.

Our market intelligence suggests that most, if not all, independent sector fostering agencies are experiencing some degree of “hold back” at present. However, the consensus view is that this will not last long and local authorities will inevitably return to progressive outsourcing of foster care provision.

Outsourcing is well established in the culture of most local authorities, but the current austerity measures have led a small number of authorities to reflect on the 50% fee premium paid for independent fostering. This disparity of cost can be attributed in part to the fact that the most complex and therefore most expensive children are placed in the care of independent providers. However, it is also clear that local authorities fail to undertake a full cost analysis of their in-house provision. Wherever this has been done, outsourcing is demonstrably much better value.

Demand for foster care has increased overall but we have noted an increasing trend among some local authorities to make provision in-house for all but the most complex children. In our view this is an expensive and unsustainable approach that exposes local authority commissioners to risk. Our own services are being maintained at an acceptable level. Looking forward we are training our foster carers with the skills required to manage more complex work and have linked the fostering division with our residential team for children so that we can maintain an effective care pathway.

#### 4. Young People Residential Services

Revenue	£22.4m (2014: £21.9m)
Underlying EBITDA	£8.2m (2014: £7.4m)
Capacity	205 (2014: 153)

A number of children and young people need to live in specialised residential services and receive education. As far as practicable we aim to help these children move into a more normalised family style environment.

This segment contains children residential care homes, which includes facilities for children with learning difficulties and emotional behavioural disorders (“EBD”), and small specialist schools.

In the year this segment benefited from two new services and which have added 10 beds. We also acquired Spark of Genius which will provide significant benefits across the divisions due to their well established education facilities across Scotland and North East England.

Children residential services have been growing as our reputation for quality care and support spreads. We are currently developing new beds and places that have been commissioned during the past year.

## 5. Learning Services

Revenue	£10.0m (2014:£7.9m)
Underlying EBITDA	£0.9m (2014:£0.1m)

CareTech acquired EQL Solutions in November 2013 and is a national provider specialising in employment and training services to young people and adults. The necessary investment and re-structuring is now complete.

Its intensive pre-employment, development and apprenticeship programmes use public funds from the Skills Funding Agency to lay the foundations for individuals to achieve their career goals while helping to provide businesses with the vital skills they need in their workforce.

As well as supporting the workforce, EQL Solutions has also developed programmes for service users by enhancing the pathways to independent living and employment. Young People leaving care, for example, often do not know where to find the right job opportunities or have the opportunity to access employer-focused training. We can now bridge that gap by supporting young people as they make the transition to adult life. We are also exploring how best to help individuals return to employment after mental illness and to give people with learning disabilities the skills and confidence to gain employment so that they are able to live more independently.

Early mapping with CareTech's core business has gone well. Good progress has been made in identifying the potential for EQL Solutions to add value to CareTech's attraction and recruitment of staff and their retention, helping new employees gain the skills and qualifications to grow a successful career in care through an Apprenticeship.

An Apprenticeship is a work-based learning programme designed around the needs of employers, which leads to nationally recognised qualifications. It is available to anyone aged 16 and above and is made up of a practical competency component, on-the-job training and off-the-job learning. As well as Apprenticeships being a practical, cost-effective way to recruit and train new social care employees, many employers consider the framework to be a useful learning and development route for their current employees, across all ages and experiences.

For some time the Group has felt that the ability to offer pre-employment training to potential recruits, alongside Apprenticeships and other development solutions for existing employees, would enhance and support many aspects of CareTech's outcome-based approach. We are delighted that the learning and development specialists in EQL Solutions are now working with all of the care divisions to continuously improve the standards of care and delivery across all our services. We look forward to collaborating with our partners to spread best practice and innovative training across the wider social care sector.

I am pleased to confirm that we have made good progress with EQL Solutions and the team are strongly motivated to develop their initiatives in the world of social care through the Aspire Programme.

Aspire has been developed by EQL Solutions as a unique and innovative scheme that will ensure all CareTech's support workers receive mandatory and statutory training to the highest standard whilst also being offered the opportunity to complete a Level 2 or Level 3 Apprenticeship which has been carefully tailored to suit their role.

CareTech apprentices have now begun their training with 460 CareTech support workers undertaking the apprenticeship programme.

Dawn Hodge Associates was acquired due to its Ofsted Grade 1 and experience of the social care sector. The services of EQL Solutions and Dawn Hodge Associates complement each other and provide the foundations for a strong learning division within the Group.

## **Corporate Social Responsibility**

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**

Service users 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. In the year we have been celebrating the achievements of our service users across the country, they have been busy creating art pieces for an Art Competition and the finalists are having an awards presentation in early December 2015.

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 as a vital ingredient to their, and our, success.

### **We care about the environment**

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

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

We 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 striving to reduce 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 improving our 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.

In early December 2015 we are having a staff awards ceremony with 10 categories for staff and staff teams across each Division for the 2015 Awards. It is planned to hold a similar event in 2016.

Out of a total of 3,739 staff at the end of September 2015 68% are female and 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.

During the year we undertook a Staff Engagement Survey which involved all staff and looked at values and questions across five engagement drivers. The feedback has led to a Communication Plan that will lead to improved communication across the Group.

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 is being re-launched to offer new invitations regularly and will be available to all our employees. This participation, along with regular senior management share option awards, contributes to the fulfilment of our desire to reward staff for loyalty, diligence and effort.

### **We care about quality and safety**

As a Group, our aim is to provide a safe working environment for service users, staff and visitors. We value the well-being of all stakeholders and develop policies to this end.

Maintaining workplace infrastructures is a core objective and sustained investment in Information Technology, 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 in England and the services are regulated by the Care and Social Services Inspectorate Wales (CSSIW) in Wales and by the Care Inspectorate for Scotland.

We continue to resource our own highly experienced internal quality and compliance teams which undertake a programme of regular inspection and assessment and give 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.

Being a socially responsible organisation with a focus on developing our ethical standards aligned with our economic objectives remains a core aim and we strive to identify the real value of our organisation, beyond its bottom line. Considering non-financial values such as reputation, employee commitment and service user fulfilment helps us see longer-term opportunities and risks, ultimately saving money and time.

Behaving responsibly and maximising the benefits of a strong relationship with our stakeholders is an integral part of a continuing process of building long-term value.

## Outlook

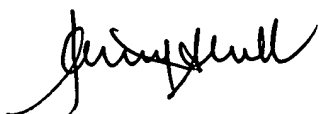
The coming year shows every sign of being good for health and social care providers and especially for those with an established reputation for quality and innovation.

Since the 2015 General Election there has been significant policy development in the pipeline and we see some indicators that local authorities have recognised the need to maintain, or grow their social care budgets.

In our view we are in a period in which consolidation will again feature strongly within the corporate sector and we are alert to quality opportunities that may arise. However, we are mindful about acquisition and have robust criteria which must be satisfied to ensure that any acquired company fits our strategic development objectives.

This has been another progressive year for CareTech and I am indebted to the strong management team who have managed the services in what has been a challenging environment for the care sector.

CareTech provides high quality care, support and outcomes to our service users. I remain proud to lead the Group, delivering a quality of care that makes such a difference to so many lives.



**Haroon Sheikh**  
Chief Executive Officer  
20 January 2016

## Financial Review

### Michael Hill

### Group Finance Director

**The Group has made further good progress and has a platform for further Acquisitions and Growth.**

#### Results

The underlying operating profit remains strong at £28.8m compared with £27.3m last year. Up to 2013 the Group had been making strategic acquisitions to gain market share and extend the care pathway range of services. Since 2013 the focus has been on organic development and cost efficiencies, but with the Share Placement, improved banking facilities, the Group (following the acquisition of Spark of Genius Limited and Dawn Hodge Associates Limited) continues to be well placed to make further acquisitions.

Underlying diluted earnings per share increased by 2.5% to 31.79p (2014: 31.01p) per share and underlying profit after tax has risen by 13.7% to £18.3m (2014: £16.1m). Basic and diluted earnings per share decreased by 42% to 13.80p and 13.80p respectively (2014: 23.86p basic and 23.85p diluted) and profit after tax decreased by 35% to £8.0m (2014: £12.4m).

Cash inflows from operating activities before tax and non-underlying items paid were £30.8m (2014: £30.3m), an increase of 1.3%. Net debt at the year end of £158.5m has reduced by £7.6m for the year.

The Condensed Income Statement before non-underlying items for the year is summarised in table 1 below.

**Table 1 –Condensed Income Statement before non-underlying items**

	2015 £m	2014 £m	Growth
Revenue	124.3	123.3	0.8%
Gross profit	47.7	46.6	
Administrative expenses	(15.2)	(15.9)	
Underlying EBITDA	32.5	30.7	5.9%
Underlying EBITDA margin	26.1%	24.9%	
Depreciation	(3.6)	(3.4)	
Share-based payments charge	(0.1)	(0.1)	
Underlying operating profit	28.8	27.3	5.5%
Net financial expenses	(6.8)	(7.5)	
Underlying profit before tax	22.0	19.7	
Taxation	(3.6)	(3.6)	
Effective tax rate	16.4%	18.2%	
Underlying profit for the year	18.4	16.1	
Weighted average number of diluted shares (millions)	57.7	52.0	
Underlying diluted earnings per share	31.79	31.01	
Full year dividend per share	8.40p	8.00p	

## Revenue

Revenue of £124.3m (2014: £123.3m) was 0.8% higher than in 2014.

In the established Adult Learning Disabilities segment we continued to experience high levels of occupancy and reported 93% occupancy at 30 September 2015. When this is blended with the facilities that are being reconfigured and so are under development, the overall occupancy level during the second half of the year and at 30 September 2015 was 86% of capacity (September 2014: 86%). As in recent years the demand for residential services continues to be encouraging for high acuity users.

As set out in the Chief Executive's statement and note 4 to the Accounts, we are again reporting segmental information for the financial year and last year which includes information on client capacity and revenue for each segment with the addition of Learning Services last year.

The continued development of our care pathways and a growing range of service options has led to the proportion of Adult Learning Disabilities revenue moving from 60.2% in 2014 to 60.9% in 2015 and EBITDA before Group costs from 63.5% in 2014 to 64.6% in 2015.

The Young People Residential services total revenue has risen by 2.3% with Mental Health falling by 12.3%, Foster Care falling by 18.3% and Learning Services rising by 26.6%. Their total proportion of the EBITDA before Group costs has come down from 36.5% in 2014 to 35.4% in 2015 due mainly to the higher margin generated by the Adult Learning Disabilities Division Services.

**Table 2 - Revenue**

	2015	2015	2014	2014
	Revenue	Underlying EBITDA	Revenue	Underlying EBITDA
	£m	£m	£m	£m
Adult Learning Disabilities	75.7	24.5	74.2	22.6
Mental Health	6.4	1.9	7.3	2.5
Adults Residential Services	<b>82.1</b>	<b>26.4</b>	<b>81.5</b>	<b>25.1</b>
Young People Residential Services	22.4	8.2	21.9	7.4
Foster Care	9.8	2.4	12.0	3.0
Learning Services	10.0	0.9	7.9	0.1
Childrens Services	<b>42.2</b>	<b>11.5</b>	<b>41.8</b>	<b>10.5</b>
	124.3	37.9	123.3	35.6
Less unallocated Group costs	-	(5.4)	-	(4.9)
	<b>124.3</b>	<b>32.5</b>	<b>123.3</b>	<b>30.7</b>

## Underlying EBITDA and total EBITDA

Underlying EBITDA has grown by 5.9% from £30.7m in 2014 to £32.5m in 2015. Underlying EBITDA margin has increased from 24.9% to 26.1% mainly due to the higher rate of margin in the Adult Learning Disabilities Services.

The Adult Learning Disabilities, Mental Health and Young People Residential Services segments have higher margins but normally require considerable capital expenditure to increase capacity, whilst Foster Care operates at a lower margin in part because it does not require capital expenditure to increase capacity.

Administrative expenses, before depreciation and share-based payments charges were £15.2m (2014: £15.9m) and decreased by £0.7m during the year. In 2014 they represented 12.9% of Group revenue and in 2015 this further improved to 12.2% of Group revenue.

There has been a considerable effort in the year to reduce administrative expenses with further back office systems centralisation and procurement successes for the Group.

The reconfiguration of services is a central part of the Board's strategy to grow organically. It enhances average fee rates and maintains the Group's reputation as a provider of highest quality of care.

The number of employees in management and administration has increased by 21. The Time and Attendance system has been implemented across all of the residential services in the year which will further our back office centralisation and ensure that staff are paid more accurately and quickly, as well as giving reliable data on staff rotas and attendance in each service.

Total EBITDA has decreased from £28.3m in 2014 to £26.8m in 2015.

### **Operating profit and profit before tax**

The depreciation charge is £3.6m (2014: £3.4m) and reflects the investment in land and buildings, motor vehicles and fixtures, fittings and equipment.

After this charge and the share-based payments, underlying operating profit grew 5.5% to £28.8m (2014: £27.3m).

Total operating profit decreased by 13.2% to £17.8m (2014: £20.5m).

Net underlying financial expenses of £6.8m (2014: £7.5m) decreased over the previous year due to the effects of the share placement monies and the new banking facilities, although there were additional finance leases taken out on new home vehicles during the year.

Underlying profit before tax was £22.0m (2014: £19.7m) which is an increase of 11.7%.

Total profit before tax decreased by 24.8% to £9.4m (2014: £12.5m).

### **Taxation and diluted earnings per share**

The effective underlying tax rate was 16.4% (2014: 18.2%) and reflects management's expectations of future capital investment through organic developments and reconfigurations relative to available capital allowances and also reflects the impact of the reduction in the main rate of corporation tax in the year.

The weighted number of shares in issue rose by 11% due to the share placement whilst the underlying diluted earnings per share rose to 31.79p in 2015 from 31.01p in 2014.

Basic and diluted earnings per share decreased by 42.2% to 13.80p and 13.80p respectively (2014: 23.86p basic and 23.85p diluted)

### **Dividends**

Our policy has been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 5.60p per share (2014: 5.40p), bringing the total dividend for the year to 8.40p (2014: 8.00p), a growth of 5.0%. Dividend cover for 2015, based upon diluted earnings per share before non-underlying items is 3.78 times (2014: 3.87 times).



## Non-underlying items

As more fully explained on the face of the Consolidated Statement of Comprehensive Income and in note 5 to the Accounts, the Directors have separately disclosed a number of non-underlying items in order to improve understanding of the underlying trading performance achieved by the Group. Total non-underlying items represent a charge of £10.9m (2014: £6.8m) and the principal items are the amortisation of intangible assets and integration and reorganisation costs plus costs associated with the new banking facilities.

## Cash flow and net debt

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

	2015	2014
	£m	£m
Underlying EBITDA	32.5	30.7
(Increase) in working capital	(1.7)	(0.2)
Cash inflows from operating activities	30.8	30.5
Tax paid	(1.3)	(0.3)
Interest paid	(6.7)	(7.1)
Dividends paid	(4.2)	(2.4)
Acquisitions and capital expenditure	(16.6)	(10.3)
Share Placement	19.8	-
Cash flow before adjustments	21.8	10.4
Non underlying cashflows including derivative financial instruments	(14.2)	(8.0)
Movement in net debt	7.6	2.4
Opening net debt	(166.1)	(168.5)
Closing net debt	(158.5)	(166.1)

Net debt at 30 September 2015 of £158.5m (2014: £166.1m) has decreased by £7.6m during the financial year, with an investment of £16.6m in acquisitions and capital improvements during the year.

Non-underlying items had a cash outflow effect of £14.2m (2014: £8.0m) being payment of acquisition and integration costs and payments made under onerous contracts.

## Underlying cash inflows from operating activities

The £30.8m (2014: £30.3m) cash inflow from operating activities, before non-underlying items, represents a 95% (2014: 98%) underlying EBITDA cash conversion ratio.

## Interest and dividend cash flows

Interest paid of £6.7m (2014: £7.1m) is reflective of the net financial expenses per the Consolidated Statement of Comprehensive Income, whilst dividends paid are consistent with the relevant section earlier in the review.

## Share Placement

The Group raised Gross Funds of £21m through a placing of 10,000,000 shares at a price of £2.10 pence per share in March 2015. Existing shareholders and new shareholders plus the management team subscribed to the placing. The intention is to use the placing proceeds would be deployed on acquisitions within approximately twelve months of the issue.

## **Acquisitions and capital expenditure**

During the year we invested total funds of £16.6m (2014: £10.3m). The Group acquired Spark of Genius for a total consideration which may rise to £9.23m comprising an initial payment of £7.48m in cash and an earn out of up to £1.75m. It also acquired Dawn Hodge Associates for an aggregate consideration of £1.1m. After the year end we acquired Roc North West Limited for a total consideration of £11.425m, which utilises the whole of the placement proceeds.

Further details of the acquisition are explained in the Chief Executive's Statement and Performance Review as well as in the notes to the financial statements.

Capital expenditure of £9.9m includes £6.0m to update our portfolio of assets.

## **Banking arrangements**

The Group is pleased to have continued its strong relationships with Royal Bank of Scotland, Lloyds TSB, Santander and Allied Irish following the last refinancing in July 2012. In July 2015, the Group agreed improvements to its banking facilities. The previous facility was due to expire in January 2017 and this has now been extended to January 2019. The cost of borrowing has been reduced through a reduction to the interest rate and four loan repayments, which were due between 2015 and October 2016 amounting to £21.6m, have been deferred. In addition, there is a new uncommitted accordion facility of up to £30m which, together with the deferral of loan repayments, gives further support to the Group's acquisition strategy.

As part of the additional financing the Group's current freehold property portfolio was valued independently at £294m in October 2015.

At 30 September 2015 the Group has available bank facilities totaling £195m which are sufficient, with cash flow from operating activities, to fund present commitments.

## **Outlook**

The Group is now in an even stronger position to continue as a pioneering provider of specialist social care services in a fragmented, large and growing UK market.



**Michael Hill**  
Group Finance Director  
20 January 2016

## Board of Directors

### 1- Farouq Sheikh Executive Chairman (aged 57)

Farouq Sheikh has been a key architect in CareTech's growth, having been co-founder of the Group and 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 Group as well as leading the management team in winning a number of long-term contracts from local and health authorities.

Farouq is a leading business entrepreneur, philanthropist and investor within the UK. 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. Under his stewardship, CareTech's earnings per share has grown significantly from 4.1p in 2005 to 31.31p in the current financial year.

Farouq has been presented with a number of Entrepreneur of the Year awards by prestigious organisations including Laing and Buisson, Coutts Bank and Ernst & Young. He also presents widely at healthcare conferences, raising awareness of the learning disability sector.

As Patron and Enterprise Fellow of the prestigious Prince's Trust and as a member of the Mosaic National Advisory Board, Farouq supports young people by passing on his experience and expertise to inspire the next generation of entrepreneurs.

### 2- Haroon Sheikh BSc Chief Executive Officer (aged 59)

Haroon Sheikh, a London University graduate, is one of the UK's leading entrepreneurs, philanthropists and community figureheads and one of the founders of CareTech. Haroon brings commercial acumen, related industry experience and property knowledge which has been essential in the growth of the business. As Chief Executive Officer, 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 with a learning disability.

In 2008, Haroon and his brother Farouq were winners of the highly valued Coutts Family Business Prize and widely applauded for the quality and social integrity of the company they created.

Haroon is Patron and Enterprise Fellow of the Prince's Trust and is also Vice Chair of the UK Advisory Council of the British Asian Trust under the patronage of HRH Prince Charles.

Haroon's most recent social enterprise was establishing the COSARAF Charitable Foundation to benefit communities and individuals in the UK and abroad. As trustee for International Development, Haroon established the COSARAF Kenya Feeding Project which supports the feeding of over 700 women and children daily as well as supporting the drilling of boreholes in various rural villages.

3- Michael Hill Group Finance Director (aged 64)

Michael qualified as a chartered accountant with Deloitte in 1975 and then did an MBA before joining Kimberley Clark as a Financial Analyst managing marketing projects. Michael then had senior financial roles in retailing with the launch of Next, the Electricity privatisation and as Finance Director of quoted Mersey Docks.

He was involved from 2001 with the Care Charity, Community Integrated Care as a Trustee and then Director of Finance and from 2006 as Finance Director of National Fostering Agency. Michael joined CareTech in 2010 to establish the Foster Care division and oversaw its growth. He became Group Finance Director on 2 August 2011 and he is also Company Secretary.

4- Karl Monaghan Non-Executive Director (aged 53)

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 seven years and Robert W. Baird for two 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.

5- Dr. Mike Adams OBE Non-Executive Director (aged 44)

Mike has a significant track record in the social care, health and disability sectors. For five years he was Director of the National Disability Team, responsible for policy and practice for disabled students in higher education. Mike was Director of Operations for the Disability Rights Commission for two years and has been Chief Executive Officer of ecdp, an Essex based user-led disability organisation, since October 2007. Mike spent nine months as acting Chair of a large acute hospital trust in Essex and has previously chaired an expert panel on Access to Work, the Governments flagship disability employment programme. Mike has been awarded an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.

6- Jamie Cumming Non- Executive Director (aged 65)

Jamie has a strong track record in City corporate and investor relations. Having started his career with Touche Ross, Jamie became an Investment analyst with Parsons & Co. (latterly Allied Provincial Securities) in 1978 and was an Extel rated analyst. Following this he joined Brewin Dolphin in 1996 and in 2011 he became Head of Brewin Dolphin's Corporate Advisory & Broking Division and led the demerger of Brewin Dolphin's investment banking activities through a merger with Madrid based asset manager and M&A house N+1, to create N+1Brewin. He became Chief Executive Officer of the new business in 2013, latterly overseeing the subsequent merger with Singer Capital Markets. Jamie is a senior advisor to Cantor Fitzgerald Europe and a non-executive director of 21<sup>st</sup> Century Technology plc. With over 30 years in the City, Jamie has a wealth of experience in advising both institutional investors and corporate clients.

## **Corporate Governance Report**

### **Do we comply with the UK Corporate Governance 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.

We do not comply with the UK Corporate Governance Code. However, we have reported on our corporate governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company and best practice.

This sets the tone for corporate behaviour and helps 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 and Michael Hill is the Group Finance Director. The Directors’ biographies appear on pages 34 to 35 and detail their experience and suitability for leading and managing the Group.

Karl Monaghan, the Senior Independent Director, Mike Adams and Jamie Cumming are the three Non-Executive Directors and the Board considers each of them as independent. 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 three 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 in respect of conflicts is 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 2015:

	Board	Audit Committee	Remuneration Committee	Care Governance & Safeguarding Committee
Farouq Sheikh	10	-	4*	-
Haroon Sheikh	10	-	1*	1*
Michael Hill	10	2*	4	2
Karl Monaghan	10	2	4	3
Mike Adams	10	2	3	3
Jamie Cumming	9	1	4	3

\* 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 Nominations Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review. When the need for an additional Non-Executive Director is identified the Board appoints advisors to nominate experienced relevant and appropriate candidates. Board members meet the candidates and come to a collective view on appointments.

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

The Audit Committee comprises Karl Monaghan (Chairman), Mike Adams and Jamie Cumming. The Group Finance Director and representatives of the external auditor attend meetings by invitation as required. The Committee meets at least twice each year and receives reports from the Company's management and external auditor 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 auditor 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. The Committee has carefully considered the level of non-audit services and have concluded that this does not impact on the independence of the auditors. Details of the amount paid to the external auditor during the year, for audit and other services, are set out in note 6 to the financial statements.

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

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 44 to 46. Also detailed in that report are Directors' remuneration, shareholdings and share options 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.

The Group operates in a highly competitive environment. For the Group to continue to compete successfully, it is essential that the level of remuneration and benefits offered achieve the objectives of attracting, retaining, motivating and rewarding the necessary high calibre of individuals at all levels across the Group.

The Group therefore sets out to provide competitive remuneration to all its employees, appropriate to the business environment in the market in which it operates. To achieve this, the remuneration package is based upon the following principles:

- total rewards should be set to provide a fair and attractive remuneration package;
- appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward; and
- Executive Directors' incentives should be aligned with the interests of shareholders.

The remuneration strategy is designed to be in line with the Group's fundamental values of fairness, competitiveness and to support the Group's corporate strategy. A cohesive reward structure consistently applied and with links to corporate performance, is seen as critical in ensuring attainment of the Group's strategic goals.

## **Who is on the Care Governance and Safeguarding Committee and what do they do?**

The Care Governance and Safeguarding Committee is chaired by Mike Adams and the other members of the Board Committee are Karl Monaghan and Jamie Cumming. During the year the Group Finance Director Michael Hill left the committee and Group's Clinical Director Dr. Junaid Bajwa and the Chief Operating Officer John Ivers joined the Committee.

The Committee was formed because the Board is sensitive to the public's increased awareness and anxiety about care governance and safeguarding. In 2013 the Whistleblowing "Tell Us" Campaign was introduced by this committee and it is pioneering because it provides direct access to the CEO.

The Group has always been regarded as a careful and thoughtful provider of care and the Committee was formed to closely examine and pursue improvements to all matters relating to the care governance and the safeguarding of those we support, including health and safety, across the Group. Last year it included external attendees to its meetings such as the Head of Safeguarding for Hertfordshire County Council and received external presentations such as Conflict Management from Maybo to help the Committee understand best practice and in 2015 met with CQC.

We have held several useful meetings with regulators and also invited key regulation managers to attend our Care Governance and Safeguarding Committee. The committee is seen as a pioneering initiative that has won friends and encouragement from regulators and commissioners alike. The committee brings non-executive directors into a much closer relationship with our everyday work and they have adopted a robust scrutiny approach to care practice. This in itself has had a positive impact on care quality and the executive team has been encouraged to introduce quality initiatives across the company.

The Group has 125 adult services regulated by the Care Quality Commission (CQC) who assess the services against approved essential standards of quality and safety. The regulators test and publicly record whether services are compliant or non-compliant against those standards.

The new monitoring system has four levels of CQC reporting outcomes and has been applied so far by CQC to 40% of the Group's Adult Services. The National distribution across the four outcomes is shown in the table below with 92% of services being either Good or a service which has a requirement which needs to improve to achieve good. Above Good is Outstanding for 1% of services and below is Inadequate for 7%. For the Group's services the published reports are as follows with all the services in the middle two outcomes:-

Ratings	Outstanding	Good	Requires Improvement	Inadequate
National	1%	59%	33%	7%
Group	0%	69%	31%	0%

Adult services in Wales are regulated under different national legislation and are not currently rated on any form of scale, though all are compliant.

Our Children division is regulated by the Office for Standards in Education (Ofsted) in England and these services are rated as Outstanding or Good under the old monitoring system. Since April 2015 for Residential Services there is no longer an overall rating and services are rated under three domains and the Group has had seven published reports. The Fostering services in England are regulated by Ofsted and one is rated Outstanding and two are rated Good. In Wales the services are regulated by the Care and Social Services Inspectorate Wales (CSSIW) and are not currently rated on any form of scale. The Care Inspectorate for Scotland who regulate both Adults and Children Services have the majority of the Group's rated Residential Services as Excellent or Very Good for both the established services and the acquired services in Scotland.

The Care Governance and Safeguarding Committee has oversight of all issues and reports relating to the well-being of service users, commissions enquiries into matters of concern and ensures that the Executive Team operates to the highest possible level of professional care standards. Throughout the past year the Care Governance and Safeguarding Committee has invited operational managers, regulators and local safeguarding lead officers to attend its meetings.

The Care Governance and Safeguarding Committee works in close association with the Group's internal regulatory compliance team who operate across all divisions, reporting direct to the CEO.

## Have we maintained an effective relationship 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 conveyed and for making the Board fully aware of key shareholders' views, comments and opinions.

Contact with investors throughout the year is a priority and the Board strives 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 and the Group Finance Director as are regular meetings through the year with fund managers and investment analysts.

In February 2015 the Executive Chairman and Group Finance Director had numerous meetings with existing shareholders and potential shareholders as part of the share placement and the demonstration of the effective relationship with shareholders was the high demand for shares when the share placement was completed in March 2015.



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](http://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. 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 risks have been discussed in the strategic report on page 11 to 18. 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



**Michael Hill**  
Company Secretary  
20 January 2016

## **Directors' Report**

The Directors present their report and the audited Group financial statements for the year ended 30 September 2015.

### **Business review and future developments**

The consolidated statement of comprehensive income detailed on page 50 sets out the Group's financial results for the year.

Key performance indicators are set out in the "Highlights" on pages 3.

### **Key risks and uncertainties**

There are a number of risks and uncertainties which could impact on the Group's long-term performance. These are set out in the Strategic Report on page 17.

### **Dividends**

Dividends of £4,153,000 have been paid during the year. The Directors propose a final dividend of 5.60p per share (2014: 5.40p) subject to the 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 21 to the financial statements.

### **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 24 to the financial statements.

### **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 sharesave share option scheme for eligible employees, details of which can be found in note 20. 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 through retraining, acquisition of special aids and/or equipment or the provision of suitable alternative employment.

### **Authority to allot shares**

Pursuant to resolutions approved at the Annual General Meeting on 3 March 2015 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 8 December 2015, 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 the Directors which are set out in the Remuneration Report on page 46.

	No of Ordinary shares of 0.5p	Percentage
Henderson Global Investors	10,797,854	17.34%
Norges Bank	2,026,861	3.25%
Octopus Investment Nominees	6,348,105	10.19%
Hof Hoorneman Bankiers	3,159,500	5.07%
Hendrik M Van Heijst	2,870,000	4.6%
Hargreave Hale	2,323,572	3.73%
Majedie Asset Management	2,232,391	3.58%

### **Directors**

The names of the current Directors together with brief biographical details are shown on pages 34 to 35.

In accordance with the articles of association, M. Adams and J. Cumming retire by rotation and, being eligible, offer themselves for re-election.

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

Farouq Sheikh  
Haroon Sheikh  
Karl Monaghan  
Mike Adams  
Michael Hill  
Jamie Cumming

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 44.

### **Directors' insurance**

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

## **Going concern**

After making appropriate enquiries and reviewing the year end balance sheet position, 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 at least the next 12 months. The Group has prepared detailed budgets and cash flow forecasts and have considered the capital and working capital requirements. There are a number of Banking Covenants which ratchet depending upon time and Group performance. The Directors forecast that they are able to meet all banking covenants which are reviewed regularly. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

## **Post balance sheet events**

On the 1 December 2015, the Group acquired the entire issued share capital of ROC North West Limited and all of the children's residential properties from which it operates ("ROC"). ROC is a North West based provider of residential care and education services for young people with complex needs.

The total consideration for ROC is up to £11.425 million, comprising a net initial cash payment of £8.725 million and an earn-out of up to £2.7 million payable. This is made up of £275,000 which was settled on completion of the acquisition through the issue of 100,000 ordinary shares in the capital of the Company at a price of 275 pence per Ordinary Share. The remainder of the consideration under the earn-out of up to £2.425 million will be determined with reference to ROC's EBITDA performance over the period to July 2016 and will be funded from current cash reserves.

The net book value of the acquired entity was £1.5m. The Directors will review the fair value of the intangible assets, tangible assets and liabilities and will report on them and the goodwill arising on acquisition in the interim financial statement.

## **Auditor**

Grant Thornton UK LLP 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.

By order of the Board



**Michael Hill**  
Company Secretary  
20 January 2016

Metropolitan House  
3 Darkes Lane  
Potters Bar  
Hertfordshire EN6 1AG

## Remuneration Report

The Remuneration Committee comprises three Non-Executive Directors, Jamie Cumming (Chairman), Karl Monaghan and Mike Adams, and meets at least twice each year. The Company Secretary, Michael Hill, is the secretary of the Remuneration Committee.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. They do not participate in any bonus, share option or pension arrangements.

The Committee's 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 Policy

CareTech's remuneration policy 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.

## Remuneration Report (continued)

### Directors' service agreements

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

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

### Directors Remuneration (audited)

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

Year to 30 September	Salary & Fees		Benefits		Annual Bonus		Total		Pension	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
<b>Current Directors</b>										
Farouq Sheikh	422	264	31	16	50	36	503	316	-	8
Haroon Sheikh	209	209	45	43	50	36	304	288	-	10
Karl Monaghan	43	43	-	-	-	-	43	43	-	-
Mike Adams	28	28	-	-	-	-	28	28	-	-
Michael Hill	150	150	71	3	-	86	221	239	3	-
Jamie Cumming	28	28	-	-	-	-	28	28	-	-
Stewart Wallace	-	150	-	21	-	36	-	207	-	8
retired 27 September 2014										
<b>Total</b>	880	872	147	83	100	194	1,127	1,149	3	26

## Remuneration Report (continued)

### 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 2015 Number of Ordinary 0.5p Shares	30 September 2014 Number of Ordinary 0.5p Shares
Westminster Holdings Limited (1)	11,263,519	10,787,328
Cosaraf Trust (2)	2,060,091	2,060,091
Cosaraf Pension Fund (3)	170,000	170,000
Farouq Sheikh	485,000	485,000
Haroon Sheikh	485,000	485,000
Michael Hill	47,619	-
Karl Monaghan	31,250	31,250
Mike Adams	2,300	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.

### Directors' share options

Farouq Sheikh, Haroon Sheikh and Michael Hill own 300,000, 400,000 and 175,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan (see note 20). There were no changes in the Director's holdings under the Group's Executive Shared Ownership Plan during the year ended 30 September 2015. None of the Directors have any share options in the Company.

By order of the Board



**Jamie Cumming**

Chairman of the Remuneration Committee  
20 January 2016

Metropolitan House  
3 Darkes Lane  
Potters Bar  
Hertfordshire, EN6 1AG

## Statement of Directors' Responsibilities

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 financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

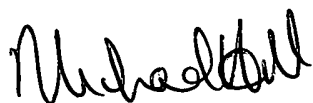
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

By order of the Board



**Michael Hill**  
Company Secretary  
20 January 2016

Metropolitan House  
3 Darkes Lane  
Potters Bar  
Hertfordshire EN6 1AG



## **Independent Auditor's Report**

### **to the members of CareTech Holdings PLC**

We have audited the financial statements of CareTech Holdings PLC for the year ended 30 September 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and 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 European Union 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 47, 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 and express an opinion on 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **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 2015 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 European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and 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.

*Grant Thornton UK LLP*

**Jeremy Read**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Milton Keynes

20 January 2016

# Consolidated Statement of Comprehensive Income

for the year ended 30 September 2015

		2015			2014		
	Note	Underlying £000	Non underlying <sup>(i)</sup> £000	Total £000	Underlying £000	Non underlying <sup>(i)</sup> £000	Total £000
<b>Revenue</b>	4	124,271	-	124,271	123,302	-	123,302
Cost of sales		(76,571)	-	(76,571)	(76,708)	-	(76,708)
<b>Gross profit</b>		47,700	-	47,700	46,594	-	46,594
Administrative expenses		(18,947)	(10,938)	(29,885)	(19,341)	(6,799)	(26,140)
<b>Operating profit</b>		28,753	(10,938)	17,815	27,253	(6,799)	20,454
<b>EBITDA <sup>(ii)</sup></b>		32,496	(5,707)	26,789	30,653	(2,377)	28,276
Depreciation	12	(3,683)	-	(3,683)	(3,350)	-	(3,350)
Amortisation of intangible assets	13	-	(5,231)	(5,231)	-	(4,422)	(4,422)
Share-based payments charge		(60)	-	(60)	(50)	-	(50)
<b>Operating profit</b>		28,753	(10,938)	17,815	27,253	(6,799)	20,454
Financial expenses	5,8	(6,797)	(1,621)	(8,418)	(7,540)	(423)	(7,963)
<b>Profit before tax</b>		21,956	(12,559)	9,397	19,713	(7,222)	12,491
Taxation	5,9	(3,623)	2,184	(1,439)	(3,577)	3,496	(81)
<b>Profit and comprehensive income for the year attributable to equity shareholders of the parent</b>		18,333	(10,375)	7,958	16,136	(3,726)	12,410
<b>Earnings per share</b>							
Basic	10,11	<u>31.80p</u>		<u>13.80p</u>	<u>31.02p</u>		<u>23.86p</u>
Diluted	10,11	<u>31.79p</u>		<u>13.80p</u>	<u>31.01p</u>		<u>23.85p</u>

(i) Non underlying items comprise: amortisation of intangibles, acquisition expenses, fair value adjustments on prior year acquisitions, changes in value and additional finance payments in respect of derivative financial instruments, integration, reorganisation and redundancy costs and provision for onerous leases. See note 5.


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

# **Consolidated Balance Sheet**

at 30 September 2015

	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Property, plant and equipment	12	256,552	243,309
Other intangible assets	13	34,251	30,826
Goodwill	13	38,651	36,037
		<u>329,454</u>	<u>310,172</u>
<b>Current assets</b>			
Inventories		515	515
Trade and other receivables	15	12,981	8,675
Derivative financial instruments		-	156
Cash and cash equivalents	16	3,702	3,900
		<u>17,198</u>	<u>13,246</u>
<b>Total assets</b>		<u>346,652</u>	<u>323,418</u>
<b>Current liabilities</b>			
Loans and borrowings	17	1,927	9,222
Trade and other payables	18	16,920	14,642
Deferred and contingent consideration payable		1,500	-
Deferred income		2,142	1,563
Corporation tax		8,306	6,999
Derivative financial instruments		562	-
		<u>31,357</u>	<u>32,426</u>
<b>Non-current liabilities</b>			
Loans and borrowings	17	160,303	160,811
Deferred tax liabilities	19	21,066	20,602
Derivative financial instruments		227	-
Onerous lease provision	25	-	420
		<u>181,596</u>	<u>181,833</u>
<b>Total liabilities</b>		<u>212,953</u>	<u>214,259</u>
<b>Net assets</b>		<u>133,699</u>	<u>109,159</u>
<b>Equity</b>			
Share capital	21	311	260
Share premium	21	76,985	57,221
Shares held by Executive Shared Ownership Plan	21	(1,280)	(1,890)
Merger reserve	21	8,748	8,498
Retained earnings	21	48,935	45,070
<b>Total equity attributable to equity shareholders of the parent</b>		<u>133,699</u>	<u>109,159</u>

These financial statements were approved by the Board of Directors on 20 January 2016 and were signed on its behalf by:

  
**Farouq Sheikh**  
 Chairman  
 Company number: 04457287

  
**Michael Hill**  
 Group Finance Director

## Consolidated Statement of Changes in Equity as at 30 September 2015

	Share capital	Share premium	Shares held by Executive Shared Ownership Plan	Merger reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At 1 October 2013	260	57,202	(2,258)	8,498	35,040	98,742
Profit for the year	-	-	-	-	12,410	12,410
<b>Total comprehensive income</b>	-	-	-	-	12,410	12,410
Issue of ordinary shares	-	19	-	-	-	19
Reduction in shares held	-	-	368	-	-	368
Equity settled share-based payments charge	-	-	-	-	50	50
Dividends	-	-	-	-	(2,430)	(2,430)
<b>Transactions with owners recorded directly in equity</b>	-	19	368	-	(2,380)	(1,993)
<b>At 30 September 2014</b>	260	57,221	(1,890)	8,498	45,070	109,159
At 1 October 2014	260	57,221	(1,890)	8,498	45,070	109,159
Profit for the year	-	-	-	-	7,958	7,958
<b>Total comprehensive income</b>	-	-	-	-	7,958	7,958
Issue of ordinary shares	51	19,764	-	250	-	20,065
Reduction in shares held	-	-	610	-	-	610
Equity settled share-based payments charge	-	-	-	-	60	60
Dividends	-	-	-	-	(4,153)	(4,153)
<b>Transactions with owners recorded directly in equity</b>	51	19,764	610	250	(4,093)	16,582
<b>At 30 September 2015</b>	311	76,985	(1,280)	8,748	48,935	133,699

# Consolidated Cash Flow Statement

## for the year ended 30 September 2015

	Note	2015 £000	2014 £000
<b>Cash flows from operating activities</b>			
Profit before tax		9,397	12,491
Adjustments for:			
Financial expenses		8,418	7,963
Onerous lease provision charge		304	-
Depreciation	12	3,683	3,350
Amortisation	13	5,231	4,422
Share-based payments charge		60	50
Acquisition transaction cost	5	1,000	250
Exceptional costs	5	4,403	2,127
(Profit) on disposal of property, plant and equipment		(134)	(85)
		<hr/>	<hr/>
<b>Operating cash flows before movement in working capital</b>		32,362	30,568
(Increase) in trade and other receivables		(3,669)	(777)
Increase in trade and other payables		1,985	552
		<hr/>	<hr/>
<b>Operating cash flows before adjustment items</b>		30,678	30,343
Exceptional costs paid	5(i)	(1,604)	(1,633)
Payments made under onerous contracts		(725)	(2,577)
		<hr/>	<hr/>
<b>Cash inflows from operating activities</b>		28,349	26,133
Tax paid		(1,339)	(312)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		27,010	25,821
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,051	1,887
Payments for business combinations net of cash acquired	23	(6,591)	(1,094)
Acquisition of property, plant and equipment		(5,976)	(6,976)
Acquisition of intangible items	13	(3,893)	(3,294)
Payment of acquisition costs		(1,182)	(862)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(16,591)	(10,339)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital (net of costs)	21	19,815	15
Proceeds from new loan (net of costs)		158,525	2,938
Interest paid		(6,694)	(7,105)
Cash outflow arising from derivative financial instruments		(675)	(911)
Bank fees on refinancing		(1,169)	-
Repayment of borrowings		(173,556)	(6,950)
Payment of finance lease liabilities		(2,710)	(922)
Dividends paid	22	(4,153)	(2,430)
		<hr/>	<hr/>
<b>Net cash (used in) financing activities</b>		(10,617)	(15,365)
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(198)	117
<b>Cash and cash equivalents at start of year</b>		3,900	3,783
		<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>		3,702	3,900
		<hr/>	<hr/>

**Consolidated Cash Flow Statement**  
for the year ended 30 September 2015 (*continued*)

	Note	2015 £000	2014 £000
<b>Net debt in the balance sheet comprises:</b>			
Cash and cash equivalents	16	3,702	3,900
Bank loans	17	(154,716)	(166,198)
Finance lease and hire purchase contracts	17	(7,514)	(3,835)
		<hr/>	<hr/>
<b>Net debt at 30 September</b>		<b>(158,528)</b>	<b>(166,133)</b>
		<hr/>	<hr/>

# Notes to the Financial Statements

## 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 2015 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 20 January 2016.

### 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 Performance Review on pages 8 to 10 and pages 19 to 28. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 29 to 33. In addition, note 24 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. 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, which are shown in the table in note 24 and indicates their contractual cash flow maturities. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants which are reviewed regularly.

An extension to the existing bank facilities was agreed with our bankers. The facility which was due to expire in January 2017 has been extended to January 2019. The cost of borrowing has been reduced through a reduction to the interest rate and four loan repayments, which were due between 2015 and October 2016 amounting to £21.6m, have been deferred. In addition, there is a new uncommitted accordion facility of up to £30m which, together with the deferral of loan repayments, gives further support to the Group's acquisition strategy.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months from the date of signing these financial statements. The Group has prepared detailed budgets and cashflow forecasts and has considered the capital and working capital requirements. Thus the Directors 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.



During the year, the Group adopted the following standards for the period commencing 1 October 2014.

<b>Pronouncement</b>	
IFRS 10	Consolidated Financial Statements
IAS 27 (Revised)	Separate Financial Statements
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance - Amendments to IFRS 10, IFRS 11 and IFRS 12
Amendments to IFRS 10, IFRS 12, and IAS 27	Investment entities - Amendments to IFRS 10, IFRS 12 and IAS 27
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting

There are other standards and interpretations in issue but these are not considered to be relevant to the Group.

**(b) Measurement convention**

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value and contingent consideration is stated at fair value through profit or loss.

**(c) Basis of consolidation**

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 30 September 2015. All subsidiaries have a reporting date of 30 September. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

**(d) 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 the 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 in note n.

Depreciation is charged to the consolidated statement of comprehensive income 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 to residual value;                       |
| • long leasehold property          | over the life of the lease<br>(to a maximum of 50 years); |
| • short leasehold property         | over the life of the lease;                               |
| • fixtures, fittings and equipment | 15% straight line; and                                    |
| • motor vehicles                   | 25% reducing balance.                                     |

#### **(e) Intangible assets and goodwill**

All business combinations are accounted for by applying the acquisition method as described in note r. Goodwill represents 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 the consolidated statement of comprehensive income.

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

Amortisation is charged to the consolidated statement of comprehensive income 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 | 1–20 years; and |
| • software and licences  | 5 years.        |

#### **(f) Inventories**

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on a first-in first-out cost basis.

#### **(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) Financial Instruments**

### **Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### **Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables and
- financial assets at fair value through profit or loss (FVTPL).

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in the consolidated statement of comprehensive income are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

### **Financial assets at FVTPL**

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category. Assets in this category are measured at fair value with gains or losses recognised in the consolidated statement of comprehensive income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

### **Classification and subsequent measurement of financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in the consolidated statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in consolidated statement of comprehensive income are included within finance costs or finance income.

From time to time, the long term debt held by the Group are refinanced as these come to maturity. The Group reviews whether the refinancing of the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

Derivative financial instruments.

From time to time, the Group enters into derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated statement of comprehensive income immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

#### **(i) 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 consolidated statement of comprehensive income.

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 or 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.

#### **(j) Interest-bearing borrowings**

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 8.

#### **(k) 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 grant date fair value of options 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 on exercise as an expense is adjusted to take into account an estimate of the number of shares that are expected to vest as well as 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. Options lapsed are expunged from the relevant scheme.

##### Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the consolidated financial statements. Any assets held by the EBT cease to be recognised on the consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated statement of comprehensive income.

## **(l) Provisions**

A provision, other than provisions for deferred taxation, is recognised in the balance sheet where a reliable estimate can be made 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.

## **(m) Revenue**

Revenue in respect of the provision of care services is measured as the fair value of fee income received or receivable in respect of the services provided and is recognised in respect of the care that has been provided in the relevant period. Any additional services provided by the Group are recognised on provision of the service. Fostering revenue is recognised on the basis of the daily placements made with a full day's revenue recognised for every night a placement is with a foster carer.

Revenue in respect of learning services is directly linked to specific achievements, and milestones reached by apprentices at which point the funding from the Skills Funding Agency is receivable. A corresponding balance is recognised in receivables.

Income which has been invoiced but irrecoverable is treated as a bad debt expense. Revenue invoiced in advance is included in deferred income until the service is provided. Revenue is recognised net of VAT and credit notes.

## **(n) 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.

### **Non underlying items**

Non underlying items are events or transactions which, in the opinion of the Directors, by virtue of size and incidence are disclosed separately in order to improve a reader's understanding of the financial statements. Details are included in note 5.

### **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 consolidated statement of comprehensive income using the effective interest method.

Interest payable is recognised in the consolidated statement of comprehensive income 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.

Financing costs also include losses arising on the change in fair value of derivatives that are recognised in the consolidated statement of comprehensive income.

## **(o) 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.

**(p) Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income 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. The carrying amounts of deferred tax assets are reviewed at each balance sheet date.

**(q) Underlying EBITDA and underlying earnings per share**

Underlying EBITDA as defined on page 50 is the key profit measure used by the Board to assess the trading performance of the Group as a whole.

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

**(r) Business combinations**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

**3 Accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

**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 judgements which have the most significant effect on the amounts recognised in the financial statements:

#### Goodwill

The Directors use their judgement 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 judgement, 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 2015 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 acquired customer relationships, and the determination of the related amortisation profile, involves a significant degree of judgement 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 this intangible asset.

#### 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.

#### Judgements

##### Current asset provisions

In the course of normal trading activities, judgement 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, judgement 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.



#### 4 Segmental information

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of each of the segments.

The CODM uses underlying EBITDA as reviewed at monthly Executive Committee and Performance meetings as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying EBITDA is a consistent measure within the Group.

Inter-segment revenue between the operating segments is not material.

Our two key segments are Adult Services (Adult) and Children Services (Children). Adult Services comprises the Adult Learning Disabilities (ALD) and Mental Health (MH) divisions and the Children Services comprises Young People Residential Services (YPR), Foster Care (FC) and Learning Services (Learning).

There has been no aggregation of the operating segments in arriving at these reportable segments.

The segment results for the year ended 30 September 2015, for the year ended 30 September 2014 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial information are as follows:

<b>Year ended 30 September 2015</b>								
<b>Continuing Operations</b>	<b>ALD</b>	<b>MH</b>	<b>Adult</b>	<b>YPR</b>	<b>FC</b>	<b>Learning</b>	<b>Children</b>	<b>Total</b>
Client Capacity	1,496	114	<b>1,610</b>	205	301	-	<b>506</b>	<b>2,116</b>
Revenue (£'000)	75,704	6,436	<b>82,140</b>	22,364	9,761	10,006	<b>42,131</b>	<b>124,271</b>
Underlying EBITDA (£'000)	24,460	1,890	<b>26,350</b>	8,230	2,453	935	<b>11,618</b>	<b>37,968</b>

<b>Year ended 30 September 2014</b>								
<b>Continuing Operations</b>	<b>ALD</b>	<b>MH</b>	<b>Adult</b>	<b>YPR</b>	<b>FC</b>	<b>Learning</b>	<b>Children</b>	<b>Total</b>
Client Capacity	1,450	151	<b>1,601</b>	153	320	-	<b>473</b>	<b>2,074</b>
Revenue (£'000)	74,192	7,257	<b>81,449</b>	21,945	12,001	7,907	<b>41,853</b>	<b>123,302</b>
Underlying EBITDA (£'000)	22,647	2,482	<b>25,129</b>	7,474	2,966	57	<b>10,497</b>	<b>35,626</b>

<b>Reconciliation of EBITDA to profit after tax;</b>			<b>2015</b>	<b>2014</b>
			<b>£000</b>	<b>£000</b>
Underlying EBITDA before unallocated costs			37,968	35,626
Unallocated costs			(5,472)	(4,973)
Underlying EBITDA			32,496	30,653
Depreciation			(3,683)	(3,350)
Amortisation			(5,231)	(4,422)
Share based payments charge			(60)	(50)
Non underlying items			(5,707)	(2,377)
Operating profit			17,815	20,454
Financial expenses			(8,418)	(7,963)
Profit before tax			9,397	12,491
Taxation			(1,439)	(81)
Profit after tax			7,958	12,410

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.

No asset and liability information is presented above as this information is not allocated to operating segments in the regular reporting to the Group's Chief Operating Decision Maker and is not a measure used by the CODM to assess performance and to make resource allocation decisions.

## 5 Non underlying items

Non underlying items 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 underlying trading performance achieved by the Group as these are one off significant costs which are not part of the ordinary course of the business. Non underlying items comprise the following:

	Note	2015 £000	2014 £000
Acquisition expenses	(i)	1,000	250
Exceptional costs	(i)	4,403	2,127
<b>Acquisition and development costs</b>		<b>5,403</b>	<b>2,377</b>
Onerous lease provision	(ii)	304	-
Included in EBITDA		5,707	2,377
Amortisation of intangible assets (note 13)		5,231	4,422
<b>Included in administrative expenses</b>		<b>10,938</b>	<b>6,799</b>
Fair value movements relating to derivative financial instruments	(iii)	946	(489)
Charges relating to derivative financial instruments (note 5)		675	912
<b>Included in financial expenses</b>		<b>1,621</b>	<b>423</b>
Tax on non underlying items (note 9):			
Current	(iv)	(1,320)	(1,384)
Deferred tax	(v)	(864)	(2,112)
<b>Included in taxation</b>		<b>(2,184)</b>	<b>(3,496)</b>
<b>Total non underlying items</b>		<b>(10,375)</b>	<b>(3,726)</b>

(i) The Group incurred a number of exceptional costs relating to the integration of recent acquisitions and the reorganisation of the internal operating and management structure and redundancy costs totalling £4,403,000 (2014: £2,127,000). Included in the cash flow statement are acquisition expenses of £1,000,000 (2014: £250,000) and integration and reorganisation costs of £1,604,000 (2014: £1,633,000), which were paid in the year.

(ii) The present value of the future cash flows receivable from the operation of certain leased assets has been assessed as being lower than the present value of the rental payments to which the Group is committed. Therefore the Group has provided for £304,000 (2014: £nil) being the present value of any onerous element of the remaining lease life. At the balance sheet date the balance on the provision was £nil (2014: £420,000) arising on a business combination.

(iii) Non underlying items relating to derivative financial instruments include the movements during the year in the fair value of the Group's interest rate swaps which are not designated as hedging instruments and therefore do not qualify for hedge accounting, together with the quarterly cash settlement, and accrual thereof.

(iv) Represents the current tax on items (i), (ii), (iii) and (iv), above and an adjustment of £nil (2014: £1,000,000) in respect of an exceptional adjustment in respect of prior year corporation tax.

(v) Deferred tax arises in respect of the following:

	2015 £000	2014 £000
Derivative financial instruments (note iv)	194	(107)
Full provision for deferred tax under IAS 12	(446)	336
Other adjustments	1,116	1,883
	<u>864</u>	<u>2,112</u>

## 6 Auditor's remuneration

	2015 £000	2014 £000
Audit of these financial statements	108	112
Amounts receivable by the auditor and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	13	26
All other services	19	33
	<u>140</u>	<u>171</u>

Other services relate to Company Secretarial and review of the Equity reward scheme.

## 7 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	
	2015	2014
Operational and service delivery staff	3,224	3,340
Maintenance	17	17
Management and administration	195	174
	<u>3,436</u>	<u>3,531</u>

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	53,721	57,552
Share-based payments charge	60	50
Social security costs	4,825	4,915
Other pension costs	593	577
	<u>59,199</u>	<u>63,094</u>

## 8 Finance expenses

	2015 £000	2014 £000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	6,523	7,318
Finance charges in respect of finance leases	274	222
	<hr/>	<hr/>
Financial expenses before adjustments	6,797	7,540
Derivative financial instruments (note 5)	1,621	423
	<hr/>	<hr/>
	8,418	7,963
	<hr/>	<hr/>

In accordance with the revision to IAS 23, borrowing costs at £360,000 (2014: £360,000) have been capitalised in the year within property plant and equipment. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

## 9 Taxation

### (a) Recognised in the consolidated statements of comprehensive income

	2015 £000	2014 £000
<i>Current tax expense</i>		
Current year	(3,837)	3,797
Current tax on non underlying items (note 5)	1,320	(949)
Corporation tax overprovided in previous periods	-	(1,000)
	<hr/>	<hr/>
Total current tax	(2,517)	1,848
	<hr/>	<hr/>
<i>Deferred tax expense</i>		
Current year	214	345
Deferred tax on non underlying items (note 5)	864	(2,112)
	<hr/>	<hr/>
Total deferred tax	1,078	(1,767)
	<hr/>	<hr/>
Total tax in the consolidated statement of comprehensive income	(1,439)	81
	<hr/>	<hr/>

## 9 Taxation (continued)

### (b) Reconciliation of effective tax rate

	2015 £000	2014 £000
Profit before tax for the year	9,397	12,491
Tax using the UK corporation tax rate of 20.5% (2014: 22%)	1,926	2,748
Non-deductible expenses	1,334	1,108
Other deferred tax adjustments	(1,267)	(2,775)
Corporation tax overprovided in previous periods	(554)	(1,000)
Total tax in the consolidated statement of comprehensive income	1,439	81

The main rate of corporation tax is set to reduce from 20% to 18% by 2020/2021. The legislation relating to the reduction had not been substantively enacted at the balance sheet date and as such the deferred tax balances have been recognised at a corporation tax rate of 20.5%.

## 10 Earnings per share

	2015 £000	2014 £000
Profit attributable to ordinary shareholders	7,958	12,410
Weighted number of shares in issue for basic earnings per share	57,653,019	52,011,178
Effects of share options in issue	17,804	21,271
Weighted number of shares for diluted earnings per share	57,670,823	52,032,449

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	13.80p	23.86p
Diluted	13.80p	23.85p

## 11 Underlying earnings per share

A measure of underlying earnings and underlying earnings per share has been presented in order to present the earnings of the Group after adjusting for non-underlying items which are not considered to reflect the underlying trading performance of the Group.

	2015 £000	2014 £000
Profit attributable to ordinary shareholders	7,958	12,410
Non underlying items (note 5)	10,375	3,726
Underlying profit attributable to ordinary shareholders	<u>18,333</u>	<u>16,136</u>
Underlying earnings per share (pence per share)		
Basic	31.80p	31.02p
Diluted	<u>31.79p</u>	<u>31.01p</u>

## 12 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
<b>Cost</b>				
At 1 October 2013	230,445	5,297	16,654	252,396
Additions	3,283	2,158	4,620	10,061
Disposals	(1,471)	(1,045)	(5,087)	(7,603)
<b>At 30 September 2014</b>	<b>232,257</b>	<b>6,410</b>	<b>16,187</b>	<b>254,854</b>
At 1 October 2014	232,257	6,410	16,187	254,854
Acquisitions through business combinations	5,298	12	102	5,412
Additions	2,430	6,447	3,846	12,723
Disposals	(273)	(2,980)	(11)	(3,264)
<b>At 30 September 2015</b>	<b>239,712</b>	<b>9,889</b>	<b>20,124</b>	<b>269,725</b>
<b>Depreciation and impairment</b>				
At 1 October 2013	3,871	2,725	7,232	13,828
Depreciation charge for the year	560	917	1,873	3,350
Disposals	(33)	(864)	(4,736)	(5,633)
<b>At 30 September 2014</b>	<b>4,398</b>	<b>2,778</b>	<b>4,369</b>	<b>11,545</b>
At 1 October 2014	4,398	2,778	4,369	11,545
Depreciation charge for the year	560	1,016	2,107	3,683
Disposals	(8)	(2,046)	(1)	(2,055)
<b>At 30 September 2015</b>	<b>4,950</b>	<b>1,748</b>	<b>6,475</b>	<b>13,173</b>
<b>Net book value</b>				
At 1 October 2013	226,574	2,572	9,422	238,568
<b>At 30 September 2014</b>	<b>227,859</b>	<b>3,632</b>	<b>11,818</b>	<b>243,309</b>
<b>At 30 September 2015</b>	<b>234,762</b>	<b>8,141</b>	<b>13,649</b>	<b>256,552</b>

Included in the result for the year is a profit of £134,000 (2014: £85,000 profit) on the disposal of freehold property, plant and equipment and motor vehicles. Included in property, plant and equipment are amounts held under finance leases of £7,514,000 (2014: £3,835,000).

## 12 Property, plant and equipment (continued)

### Land and buildings

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

	2015 £000	2014 £000
Freehold	234,762	227,859
	<u>234,762</u>	<u>227,859</u>

The Group's freehold property portfolio was independently valued at £294 million. All of the Group's freehold properties are pledged as security for bank borrowings.

## 13 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
<b>Cost</b>				
At 1 October 2013	31,120	3,803	40,330	75,253
Additions	4,917	2,792	1,476	9,185
	<u>36,037</u>	<u>6,595</u>	<u>41,806</u>	<u>84,438</u>
At 30 September 2014	36,037	6,595	41,806	84,438
	<u>36,037</u>	<u>6,595</u>	<u>41,806</u>	<u>84,438</u>
At 1 October 2014	36,037	6,595	41,806	84,438
Acquisitions through business combinations	-	-	4,832	4,832
Additions	2,614	3,824	-	6,438
	<u>38,651</u>	<u>10,419</u>	<u>46,638</u>	<u>95,708</u>
<b>At 30 September 2015</b>	<u>38,651</u>	<u>10,419</u>	<u>46,638</u>	<u>95,708</u>
<b>Amortisation and impairment</b>				
At 1 October 2013	-	2,011	11,142	13,153
Amortisation for the year	-	1,021	3,401	4,422
	<u>-</u>	<u>3,032</u>	<u>14,543</u>	<u>17,575</u>
At 30 September 2014	-	3,032	14,543	17,575
	<u>-</u>	<u>3,032</u>	<u>14,543</u>	<u>17,575</u>
At 1 October 2014	-	3,032	14,543	17,575
Amortisation for the year	-	1,631	3,600	5,231
	<u>-</u>	<u>4,663</u>	<u>18,143</u>	<u>22,806</u>
<b>At 30 September 2015</b>	<u>-</u>	<u>4,663</u>	<u>18,143</u>	<u>22,806</u>
<b>Net book value</b>				
At 1 October 2013	31,120	1,792	29,188	62,100
	<u>36,037</u>	<u>3,563</u>	<u>27,263</u>	<u>66,863</u>
At 30 September 2014	36,037	3,563	27,263	66,863
	<u>38,651</u>	<u>5,756</u>	<u>28,495</u>	<u>72,902</u>
<b>At 30 September 2015</b>	<u>38,651</u>	<u>5,756</u>	<u>28,495</u>	<u>72,902</u>



### 13 Intangible assets (continued)

#### Amortisation

The amortisation charge is recognised in the following line items in the consolidated statement of comprehensive income:

	2015 £000	2014 £000
Administrative expenses	5,231	4,422

#### 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 operating segments. This is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives.

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, expected changes in direct costs during the periods and residual values of freehold properties (which include an assumption for the growth of the House Prices Index of 2% per annum and that residual values will be 75% of the indexed market value). In arriving at the values assigned to each key assumption management make reference to past experience and external sources of information regarding the future – for example changes in 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:

	2015	2014
Period over which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	0%	0%
<b>Pre- tax discount rate</b>		
Adult Learning Disabilities division	8%	8%
Mental Health division	10%	10%
Young People Residential Services division	8-12%	8%
Foster Care division	8-12%	12%
Learning Services division	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. The discount rates used in each value in use calculation have been based upon divisional specific risk taking account of factors such as the nature of service user need, cost profiles and the barriers to entry into each market segment as well as other macro-economic factors.

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:

	2015	2014
	£000	£000
Adult Learning Disabilities division	17,857	17,857
Mental Health division	1,148	774
<b>Adult</b>	<b>19,005</b>	<b>18,631</b>
Young People Residential Services division	6,542	5,326
Foster care division	7,162	7,162
Learning Services division	5,942	4,918
<b>Children</b>	<b>19,646</b>	<b>17,406</b>
	<b>38,651</b>	<b>36,037</b>

#### 14 Group undertakings

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

	Registered Company Number	Country of incorporation	Class of shares held	Ownership 2015 %	Ownership 2014 %
CareTech Community Services Limited	02804415	England and Wales	Ordinary	100	100
CareTech Community Services (No. 2) Limited	03894564	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Care Support Services Limited	05356025	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Delam Care Limited	02995783	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Sunnyside Care Homes Limited	04589719	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Lonsdale Midlands Limited	02834141	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Daisybrook Limited	03026221	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
CareTech Estates Limited	05964868	England and Wales	Ordinary	100	100
Community Support Project Limited	05941774	England and Wales	Ordinary	100	100
One Step (Support) Limited	04534652	England and Wales	Ordinary	100 <sup>b</sup>	100 <sup>b</sup>
Counticare Limited	02585666	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
H20 Limited	97291	Gibraltar	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Hazeldene Limited <sup>1</sup>	FC015967	Gibraltar	Ordinary	100 <sup>e</sup>	100 <sup>e</sup>
One Six One Limited	04136284	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Barleycare Limited	05156601	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Valeo Limited	04099715	England and Wales	Ordinary	100	100
CareTech Estates (No. 2) Limited	06518327	England and Wales	Ordinary	100	100
CareTech Estates (No. 3) Limited	06518491	England and Wales	Ordinary	100	100
CareTech Estates (No. 4) Limited	06543818	England and Wales	Ordinary	100	100
CareTech Estates (No. 5) Limited	07027116	England and Wales	Ordinary	100	100
CareTech Estates (No. 6) Limited	08420656	England and Wales	Ordinary	100	100
CareTech Estates (No. 7) Limited	08628141	England and Wales	Ordinary	100	100
Beacon Care Holdings Limited	03293998	England and Wales	Ordinary	100	100
Beacon Care Investments Limited	04351554	England and Wales	Ordinary	100	100
Ashcroft House Limited	03390658	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Ashring House Limited	03370991	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Ashview House Limited	03304446	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Beacon Care Limited	03160894	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Beech Care Limited	04050685	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Bright Care Limited	04050733	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Emeraldpoint Limited	03098166	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Glenroyd House Limited	04326288	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Kirkstall Lodge Limited	04778674	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Leigham Lodge Limited	04583599	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Palm Care Limited	04050739	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>

Vosse Court Limited	04778676	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Wyatt House Limited	04319271	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Addington House Limited	04404355	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Magnolia Court Limited	05444649	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Victoria Lodge Limited	04454845	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Hereson House Limited	04385252	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Huntsmans Lodge Limited	04668317	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
White Cliffs Lodge Limited	04351559	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Rosedale Children's Services Limited	04932054	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Roborough House Limited	05054294	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Franklin Homes Limited	03002865	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Family Assessment Services (Birmingham) Limited	06902547	England and Wales	Ordinary	100	100
Greenfields Care Group Limited	04642100	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Greenfields Adolescent Development Limited	04068839	England and Wales	Ordinary	100 <sup>f</sup>	100 <sup>f</sup>
St Michael's Support & Care Limited	05978585	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
St Michael's Support & Care Properties Limited	07186925	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Outlook Fostering Services Limited	04357704	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Prestwood Residential Homes Ltd	04129564	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Park Foster Care Ltd	04861395	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Branas Isaf (Holdings) Limited	04827227	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Branas Isaf Personal Development Centre Limited	03744583	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Bythnod & Hendre Llywd) Limited	04826628	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Dewis Cyfarfod & Cysgod Cyfarfod) Limited	04828115	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Llyn Coed) Limited	04826774	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Ashfield House) Limited	05761962	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Education Centre) Limited	04826662	England and Wales	Ordinary	100 <sup>g</sup>	100 <sup>g</sup>
Mason Property Development Company Limited	04308273	England and Wales	Ordinary	100 <sup>g</sup>	100 <sup>g</sup>
Coveberry Limited	01208511	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Uplands (Fareham) Limited	03488896	England and Wales	Ordinary	100 <sup>i</sup>	100 <sup>i</sup>
CareTech Foster Care Limited	05185612	England and Wales	Ordinary	100 <sup>j</sup>	100 <sup>j</sup>
Fostering Support Group Limited	02359399	England and Wales	Ordinary	100 <sup>k</sup>	100 <sup>k</sup>
Phoenix Therapy and Care Limited	SC254555	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Cameron Care Limited	SC283940	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Selwyn Care Limited	03737832	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Professional Integrated Care Services Limited	04771613	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Complete Care and Enablement Services Limited	05905163	England and Wales	Ordinary	100 <sup>l</sup>	100 <sup>l</sup>
Applied Care & Development Limited	SC224352	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Caretech Fostering Holdings Limited	07206363	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Caretech Fostering Services Limited	07205262	England and Wales	Ordinary	100 <sup>m</sup>	100 <sup>m</sup>
Park Foster Care Services Scotland Limited	SC427502	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
TLC (Wales) Independent Fostering Limited	04824925	Wales	Ordinary	100 <sup>l</sup>	100 <sup>l</sup>
EQL Solutions Limited	08758477	England	Ordinary	100	100
Spark of Genius Limited	SC479758	Scotland	Ordinary	100 <sup>a</sup>	-
Spark Of Genius (Training) Limited	SC196146	Scotland	Ordinary	100 <sup>n</sup>	-
Trojan Spark Limited	SC453152	Scotland	Ordinary	100 <sup>o</sup>	-
Spark Of Genius (North East) LLP	OC384807	England	-	50 <sup>a</sup>	-
Dawn Hodge Associates Limited	04130146	England	Ordinary	100 <sup>a</sup>	-

<sup>1</sup> Has a UK designated trading branch, Hazeldene UK Limited

a a subsidiary of CareTech Community Services 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 Branass Isaf (Holdings) Limited

h a subsidiary of Branass Isaf Personal Development Centre Limited

- i a subsidiary of Coveberry Limited
- j a subsidiary of Outlook Fostering Services Limited
- k a subsidiary of CareTech Foster Care Limited
- l a subsidiary of Professional Integrated Care Services Limited
- m a subsidiary of Caretech Fostering Holdings Limited
- n a subsidiary of Spark of Genius Limited
- o a subsidiary of Spark of Genius (Training) Limited

### Exemption from Audit by Parent Guarantee

The Company being the ultimate sole shareholder of its subsidiaries has decided to take the exemption from audit of a number of subsidiaries for the year ended 30 September 2015 under Sections 479A and 479C of the Companies Act 2006 and the Company will provide a guarantee for all the liabilities of those entities as at 30 September 2015 as detailed above with the exception of CareTech Community Services Limited, Hazeldene UK Limited, Spark of Genius Limited, Spark of Genius (Training) Limited, Trojan Spark Limited, Spark of Genius (North East) LLP and Dawn Hodge Associates Limited.

CareTech Community Services Limited as the main trading entity will not take the exemptions as stakeholders require audited financial statements to be produced. Hazeldene UK Limited and H2O Limited will not be covered by the parent company guarantee as they are incorporated in Gibraltar.

### 15 Trade and other receivables

	2015 £000	2014 £000
Trade receivables (note 24)	7,193	5,700
Other debtors and prepayments	5,788	2,975
	<u>12,981</u>	<u>8,675</u>

### 16 Cash and cash equivalents

	2015 £000	2014 £000
Cash and cash equivalents per balance sheet	3,702	3,900
Cash and cash equivalents per cash flow statement	<u>3,702</u>	<u>3,900</u>

## 17 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 24.

	2015 £000	2014 £000
<b>Non-current liabilities</b>		
Secured bank loans	154,716	158,605
Finance lease liabilities	5,587	2,206
	<u>160,303</u>	<u>160,811</u>
	2015 £000	2014 £000
<b>Current liabilities</b>		
Secured bank loans	-	7,593
Finance lease liabilities	1,927	1,629
	<u>1,927</u>	<u>9,222</u>

### Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2015 £000	Book Value 2014 £000
Term loan	£	2.75 (2014:3.25) <sup>1</sup>	2019	126,699	129,462
Revolving credit facility term loan	£	2.75 (2014:3.25) <sup>1</sup>	2019	28,017	36,736
				<u>154,716</u>	<u>166,198</u>

<sup>1</sup> The margin on the facilities has initially been set at 2.75% over LIBOR but reduces based on the ratio of the Group's net debt to EBITDA. The overall margin is expected to be 2.75% over LIBOR.

At 30 September 2015 the Group has available bank facilities totalling £195m, 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, primarily property, plant and equipment of the Group.

## Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2015	2015	2015	2014	2014	2014
	£000	£000	£000	£000	£000	£000
Less than one year	2,103	176	1,927	1,787	158	1,629
Between one and five years	5,923	336	5,587	2,646	440	2,206
	<u>8,026</u>	<u>512</u>	<u>7,514</u>	<u>4,433</u>	<u>598</u>	<u>3,835</u>

## 18 Trade and other payables

	2015	2014
	£000	£000
Trade payables	3,552	3,473
Accrued expenses	13,368	11,169
	<u>16,920</u>	<u>14,642</u>

## 19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Property, plant and equipment		4,590		4,337
Intangible assets		13,728		13,303
Derivative financial instruments		(158)		44
Share-based payments	(131)	-	(119)	-
Rolled-over gains on property, plant and equipment		3,037		3,037
	<u>(131)</u>	<u>21,197</u>	<u>(119)</u>	<u>20,721</u>
Tax (assets) / liabilities		(131)		(119)
Net of tax assets		<u>21,066</u>		<u>20,602</u>

There are no unrecognised deferred tax assets or liabilities.

#### Movement in deferred tax during the year

	1 October 2014 £000	Recognised in income £000	Acquired in business combination £000	30 September 2015 £000
Property, plant and equipment	4,337	253	-	4,590
Intangible assets	13,303	(1,117)	1,542	13,728
Rolled-over gains	3,037	-	-	3,037
Derivative financial instruments	44	(202)	-	(158)
Share-based payments	(119)	(12)	-	(131)
	<u>20,602</u>	<u>(1,078)</u>	<u>1,542</u>	<u>21,066</u>

#### Movement in deferred tax during the previous year

	1 October 2013 £000	Recognised in income £000	Acquired in business combination £000	30 September 2014 £000
Property, plant and equipment	5,138	(801)	-	4,337
Intangible assets	14,617	(1,314)	-	13,303
Rolled-over gains	3,037	-	-	3,037
Derivative financial instruments	(66)	110	-	44
Share-based payments	(359)	240	-	(119)
	<u>22,367</u>	<u>(1,765)</u>	<u>-</u>	<u>20,602</u>

## 20 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 £589,000 (2014: £577,000) of which £37,000 (2014: £199,000) was outstanding at the year end.

### Share-based payments

The Company continues to operate three 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").

In addition, a new Executive Shared Ownership Plan ("ExSOP") was formed in 2012. Under the provisions of the ExSOP, shares (the "ExSOP shares") are jointly owned by nominated senior employees and by an employees' share trust. The ExSOP awards are subject to a time related performance condition measured over a three year period beginning with the date of the grant. To the extent the performance condition is satisfied, the participant can benefit from any growth of the share price in excess of the issue price.

The participant benefits either in jointly owned shares or a smaller proportion in their own name. The charge for the year £60,000 (2014: £50,000) relates entirely to the ExSOP Scheme.

Grant of the ExSOP scheme requires specific performance conditions being satisfied. These criteria are set out below;

- (i) The Share Price Target requires that the average mid-market closing price of a share should be no less than £2.49 during any period of 30 consecutive business days during the three months immediately prior to the vesting date.

EPS Target requires the growth in the Company's underlying Diluted EPS over the Performance Period to be at least 15% (being an average 5% annual growth rate, calculated without compounding).

Approved and Unapproved scheme options are exercisable at any time from the third anniversary of the date of grant to the tenth anniversary, other than nominal cost options which may become exercisable at the earliest after a period of 30 dealing days following the third anniversary of being granted. SAYE scheme options are normally exercisable within six months following the third anniversary of the date of grant. Options granted under the above schemes, together with those remaining at 30 September 2015 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30-Sep-15	Options exercised to 30-Sep 2015	Options remaining 30-Sep 2015	Option price (pence)
13 October 2005	Approved Scheme	627,375	(317,342)	(265,665)	44,368	169
7 November 2005	SAYE Scheme	186,033	(43,519)	(142,514)	-	136
2 August 2006	Approved Scheme	52,427	(43,764)	(3,424)	5,239	292
2 August 2006	Unapproved Scheme	8,220	(8,220)	-	-	292
17 January 2007	Approved Scheme	162,885	(116,855)	(23,236)	22,794	345
17 January 2007	Unapproved Scheme	18,263	(10,103)	(5,785)	2,375	345
21 March 2007	Approved Scheme	6,077	-	-	6,077	452
1 February 2008	SAYE Scheme	101,397	(101,397)	-	-	440
2 May 2008	Approved Scheme	114,070	(84,454)	(138)	29,478	410
2 May 2008	Unapproved Scheme	23,843	(19,278)	-	4,565	410
14 April 2009	Unapproved Scheme	92,308	(92,308)	-	-	0.5
4 August 2009	Approved Scheme	191,121	(130,441)	-	60,680	332.5
4 August 2009	Unapproved Scheme	165,050	(114,574)	-	50,476	332.5
12 August 2009	SAYE Scheme	202,069	(157,390)	(1,183)	43,496	254
3 August 2010	Approved Scheme	283,754	(194,309)	-	89,445	305
3 August 2010	Unapproved Scheme	210,653	(149,577)	-	61,076	305
3 August 2010	Unapproved Scheme	92,308	(92,308)	-	-	0.5
15 November 2010	Approved Scheme	8,108	-	-	8,108	370
15 November 2010	Unapproved Scheme	18,243	-	-	18,243	370
4 April 2012	Executive Shared Ownership Plan	1,608,337	(261,668)	(435,879)	910,790	153.1



## 21 Share capital

	2015 £000	2014 £000
<b>Allotted, called up and fully paid:</b>		
62,133,535 (2014: 52,016,248) ordinary shares of 0.5p each	311	260
53,402 deferred shares of 0.5p each	-	-
	<u>311</u>	<u>260</u>

Share capital represents the nominal (par) value of shares that have been issued. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights.

Movements in the number of issued shares were as follows:

### 2015

	At 1 October 2014	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2015
Ordinary shares of 0.5p each	52,016,248	100,000	17,287	10,000,000	62,133,535
Deferred shares of 0.5p each	53,402	-	-	-	53,402
	<u>52,016,248</u>	<u>100,000</u>	<u>17,287</u>	<u>10,000,000</u>	<u>62,133,535</u>

### 2014

	At 1 October 2013	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2014
Ordinary shares of 0.5p each	52,007,328	-	8,920	-	52,016,248
Deferred shares of 0.5p each	53,402	-	-	-	53,402
	<u>52,007,328</u>	<u>-</u>	<u>8,920</u>	<u>-</u>	<u>52,016,248</u>

### Reserves

Share Premium Account – During the year, the issue of new shares charged to the share premium account are as follows:

	2015 £000	2014 £000
Opening balance 1 October 2014	57,221	57,202
Premium on issue of shares	19,764	19
	<u>57,221</u>	<u>57,202</u>
At 30 September 2015	<u>76,985</u>	<u>57,221</u>

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Merger reserve – The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company (merger relief).

Merger reserve

	2015 £000	2014 £000
Opening balance 1 October 2014	8,498	8,498
Shares issued for Acquisition	250	-
At 30 September 2015	<u>8,748</u>	<u>8,498</u>

Further information relating to the EBT reserve of the Group is detailed in note 20 to the consolidated financial statements of the group.

Retained earnings - Retained earnings includes all current and prior period retained profits and share-based employee remuneration. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

## 22 Dividends

The aggregate amount of dividends comprises:

	2015 £000	2014 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year	1,350	2,430
Final dividend paid in respect of the prior year	2,803	-
Aggregate amount of dividends paid in the financial year	<u>4,153</u>	<u>2,430</u>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 8.40p per share, £5,226,404 (2014: 5.40p per share, £2,808,878).

## 23 Business Combinations

### (a) Acquisitions 2015

The Group made two acquisitions in the year which have been accounted for as business combinations under IFRS3 (revised). In view of the overall value of acquisitions in the financial year, the Directors consider it appropriate to present the acquisitions information in aggregate.

The following table of fair values summarises the acquisitions made during the financial year:

	Book values £000	Fair value adjustment £000	Total £000
Intangible assets	-	4,762	4,762
Property, plant and equipment	2,421	2,921	5,342
Other fixed assets	70	-	70
Trade and other receivables	899	(150)	749
Cash	804	-	804
Trade and other payables	(1,026)	(100)	(1,126)
Corporation tax	(131)	-	(131)
Deferred income	(748)	(93)	(841)
Deferred tax	(6)	(1,536)	(1,542)
Debt	(1,556)	-	(1,556)
Net assets on acquisition	<u>727</u>	<u>5,804</u>	<u>6,531</u>

Satisfied as follows:

Cash	7,395
Shares	250
Deferred consideration due within one year	<u>1,500</u>
	<u>9,145</u>

Goodwill 2,614

On 28 July 2015, the Group acquired 100% of the equity of Spark of Genius Limited, an educational and residential provider for Young People. The book values attributable to the acquisition were £692,000 net assets and fair value adjustments were £5,529,000 resulting in goodwill arising on acquisition of £1,589,000.

On 31 July 2015, the Group acquired 100% of the equity of Dawn Hodge Associates Limited, an educational training provider. The book values attributable to the acquisition were £35,000 net assets and fair value adjustments were £275,000 resulting in goodwill arising on acquisition of £1,025,000.

Each acquisition was undertaken to enhance the Group's position in the respective industries. In each case control was obtained through the acquisition of share capital.

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 book value of receivables represents the gross contractual amounts receivable, all of which are considered recoverable. The fair value adjustments made to intangible assets 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. The remaining goodwill of £2,614,000 relates to the assembled workforce and customer relationships acquired on acquisition.

Goodwill which is not expected to be tax deductible 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.

**(b) Reconciliation to Group Cash Flow**

	2015 £000	2014 £000
Cash consideration paid on acquisitions in the year	6,591	1,094
Cash paid on previous years acquisitions	-	-
	<hr/>	<hr/>
	6,591	1,094
	<hr/>	<hr/>

Deferred and contingent consideration payable is analysed as follows:-

	2015 £000	2014 £000
Contingent consideration		
Due within one year	1,500	-
	<hr/>	<hr/>
	1,500	-
	<hr/>	<hr/>

**(c) Proforma results**

The underlying 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:

	2015 £000	2014 £000
Revenue	133,986	124,020
Operating profit	18,919	17,049
	<hr/>	<hr/>

**24 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 a charge to the consolidated statement of comprehensive income for bad or doubtful debts of £NIL (2014: £12,000).

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 not past due.

The trade receivables as at 30 September are aged as follows:

	2015 £000	2014 £000
Not due	5,880	4,576
Not more than three months past due	1,313	1,124
More than three months but not more than six months past due	-	-
Trade receivables (note 15)	<u>7,193</u>	<u>5,700</u>

The movement in provisions for impairment of trade receivables are as follows:

	£000
At 1 October 2013	800
Charged to the consolidated statement of comprehensive Income	12
At 1 October 2014	<u>812</u>
Acquired with business combinations	150
Credited to the consolidated statement of comprehensive Income	(406)
At 30 September 2015	<u>556</u>

#### Interest rate risk

The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. As at 30 September, the Group carried 5 hedging instruments, details of which are as follows:

- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £25 million at LIBOR fixed at 1.15%;
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £34 million at LIBOR fixed at 1.15%;
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £32 million at LIBOR fixed at 1.13%;
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £16 million at LIBOR fixed at 1.15%;
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £14 million at LIBOR fixed at 1.15%;

#### 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 their contractual cash flow maturities.

	Effective Interest  rate %	Carrying  Amount  £000	2015 Contractual Cash flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables		(16,920)	(16,920)	(16,920)	-	-
Secured bank loans	5%	(154,716)	(191,477)	(7,579)	(183,898)	-
Finance lease liabilities	11%	(7,514)	(7,514)	(1,927)	(5,587)	-
Deferred and contingent consideration		(1,500)	(1,500)	(1,500)	-	-
Derivative financial instruments		(789)	(789)	(562)	(227)	-
		(181,439)	(218,200)	(28,488)	(189,712)	-

	Effective Interest  rate %	Carrying  Amount £000	2014 Contractual Cash flows £000	< 1  year £000	1 – 5  Years £000	5 years & over £000
Trade and other payables	-	(14,642)	(14,642)	(14,642)	-	-
Secured bank loans	5%	(166,198)	(191,509)	(16,691)	(174,818)	-
Finance lease liabilities	11%	(3,835)	(3,835)	(1,629)	(2,206)	-
		<u>(184,675)</u>	<u>(209,986)</u>	<u>(32,962)</u>	<u>(177,024)</u>	<u>-</u>

#### Capital risk management

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

The Group's capital structure is as follows:

	2015 £000	2014 £000
Net debt (see page 54)	158,528	166,133
Equity (see page 51)	133,699	109,159
	<u>          </u>	<u>          </u>

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 5.60p per share demonstrating a confident view of the Group's fundamental strength.

#### 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 2015, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax and equity by approximately £400,000 (2014: £450,000). 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 2015 £000	Fair value 2015 £000	Carrying amount 2014 £000	Fair value 2014 £000
<i>Loans and receivables:</i>				
Cash at bank and in hand (note 16)	3,702	3,702	3,900	3,900
Trade receivables (note 15)	7,193	7,193	5,700	5,700
<i>Amortised cost:</i>				
Trade payables (note 18)	(3,552)	(3,552)	(3,473)	(3,473)
Secured bank loans (note 17)	(154,716)	(154,716)	(166,198)	(166,198)
Contingent consideration (note 23)	(1,500)	(1,500)	-	-
<i>Held at fair value through profit and loss:</i>				
Derivative financial instruments	(789)	(789)	156	156

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 one 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 rate the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place; and
- for finance lease liabilities, all amounts are due within five years and are on terms similar to those estimated to be achievable in the market.
- for the derivatives financial instruments, these were entered into to manage the Group's exposure to interest rate risk on its external borrowings.
- for contingent consideration, this was entered into as part of the acquisition of Spark of Genius. The fair value will be determined with reference to Spark of Genius's EBITDA performance over the four financial years ending 30 September 2019.

## Fair value hierarchy

The financial instruments carried at fair value by valuation method are analysed as follows:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities: £nil (2014: £nil).
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices: liability £789,000 (2014: asset £156,000).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: liability £1,500,000 (2014: nil).



## 25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015		2014	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	3,075	302	2,951	136
Between two and five years	6,824	166	5,422	34
More than five years	7,770	-	8,623	-
	<u>17,669</u>	<u>468</u>	<u>16,996</u>	<u>170</u>

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

	2015		2014	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	2,727	364	2,426	786
Onerous lease provision	304	-	-	-
	<u>3,031</u>	<u>364</u>	<u>2,426</u>	<u>786</u>

Analysis of movement in onerous lease provision

	£000
At 1 October 2014	-
Recognised in statement of comprehensive income	736
Utilised in the year	(316)
	<u>420</u>
At 1 October 2014	420
Onerous lease provision	304
Settled in period	(724)
	<u>-</u>
At 30 September 2015	-

## 26 Related parties

During the year, CareTech Community Services Limited paid rent totalling £188,000 (2014: £184,000) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £85,000 (2014: £46,000) was outstanding. Dividends paid to Directors in the year totaled £83,000 (2014: £47,000).

### Transactions with key management personnel

	2015 £000	2014 £000
Salary	2,036	2,111
Benefits	181	206
Bonus	114	269
	<hr/>	<hr/>
Total short term remuneration	2,331	2,586
Post employment benefits	-	-
Share based payments	-	-
	<hr/>	<hr/>
	2,331	2,586
	<hr/>	<hr/>

Key management personnel are defined as Directors of the company and members of the Senior Management Team.

Directors' emoluments are set out on page 45.

## Company Statement of Changes in Equity

as at 30 September 2015

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total Equity £000
At 1 October 2013	260	57,202	8,498	17,557	83,517
Loss for the year	-	-	-	(8,639)	(8,639)
Total comprehensive income	-	-	-	(8,639)	(8,639)
Issue of shares	-	19	-	-	19
Dividends	-	-	-	(2,430)	(2,430)
Transactions with owners recorded directly in equity	-	19	-	(2,430)	(2,411)
At 30 September 2014	260	57,221	8,498	6,488	72,467
At 1 October 2014	-	-	-	7,299	7,299
Profit for the year	-	-	-	7,299	7,299
Total comprehensive income	-	-	-	7,299	7,299
Issue of shares	51	19,764	250	-	20,065
Dividends	-	-	-	(4,153)	(4,153)
Transactions with owners recorded directly in equity	51	19,764	250	(4,153)	15,912
At September 2015	311	76,985	8,748	9,634	95,678

# Company Balance Sheet

as at 30 September 2015

	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Investments	29	35,301	35,301
		<u>35,301</u>	<u>35,301</u>
<b>Current assets</b>			
Trade and other receivables	30	216,811	205,965
Cash and cash equivalents		520	29
		<u>217,331</u>	<u>205,994</u>
<b>Total assets</b>		<u>252,632</u>	<u>241,295</u>
<b>Current liabilities</b>			
Loans and borrowings	31	-	8,550
Trade and other payables	32	2,238	2,393
		<u>2,238</u>	<u>10,943</u>
<b>Non-current liabilities</b>			
Loans and borrowings	31	154,716	157,885
		<u>154,716</u>	<u>157,885</u>
<b>Total liabilities</b>		<u>156,954</u>	<u>168,828</u>
<b>Net assets</b>		<u>95,678</u>	<u>72,467</u>
<b>Equity</b>			
Share capital	33	311	260
Share premium		76,985	57,221
Merger reserve		8,748	8,498
Retained earnings		9,634	6,488
<b>Total equity attributable to equity shareholders of the parent</b>		<u>95,678</u>	<u>72,467</u>

These financial statements were approved by the Board of Directors on 20 January 2016 and were signed on its behalf by:

  
**Farouq Sheikh**  
Chairman

  
**Michael Hill**  
Finance Director

Company number: 04457287

## Company Cash Flow Statement

for the year ended 30 September 2015

	2015 £000	2014 £000
<b>Cash flows from operating activities</b>		
Profit/(Loss) for the year	7,299	(8,639)
	<hr/>	<hr/>
<b>Operating cash flows before movement in working capital</b>	7,299	(8,639)
Movement in payables	(155)	1,288
Movement in intercompany balance	(10,846)	14,452
	<hr/>	<hr/>
<b>Net cash (used in)/generated from operating activities</b>	(3,702)	7,101
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	-	-
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from new loan (net of costs)	-	2,179
Dividends paid	(4,153)	(2,430)
Proceeds from the issue of new shares (net of costs)	20,065	19
Repayment of borrowings	(11,719)	(6,950)
	<hr/>	<hr/>
<b>Net cash generated/(used in) from financing activities</b>	4,193	(7,182)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	491	(81)
<b>Cash and cash equivalents at 1 October</b>	29	110
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>	520	29
	<hr/>	<hr/>

## Company Notes

### 27 Accounting policies

#### (a) Basis of preparation

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income. The profit for the year dealt with in the financial statements of the Company was £7,299,000 (2014: £8,639,000 loss).

#### (b) Investments

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

#### (c) 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.

#### (d) Interest-bearing borrowings

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### (e) Financial Instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### (f) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in retained earnings 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.

#### (g) Revenue

Revenue represents management fees receivable, in respect of the period to which management services relate.

(h) 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.

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.

(i) 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.

## 28 Dividends

The aggregate amount of dividends comprises:

	2015 £000	2014 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year	1,350	2,430
Final dividend paid in respect of the prior year	2,803	-
	<hr/>	<hr/>
Aggregate amount of dividends paid in the financial year	4,153	2,430
	<hr/>	<hr/>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 8.40p per share, £5,226,404 (2014: 5.40p per share, £2,808,878).

## 29 Investments

	Shares in group undertakings £000
<b>Cost and net book value</b>	
At beginning of year	35,301
Share-based payments charge in respect of subsidiary undertakings	-
	<hr/>
At end of year	35,301
	<hr/>

## 30 Trade and other receivables

	2015 £000	2014 £000
Amounts owed by Group undertakings	216,811	205,965
	<hr/>	<hr/>

### 31 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 24.

	2015 £000	2014 £000
<b>Non-current liabilities</b>		
Secured bank loans	154,716	157,885
	<hr/>	<hr/>
	2015 £000	2014 £000
<b>Current liabilities</b>		
Current portion of secured bank loans	-	8,550
	<hr/>	<hr/>

#### Terms and debt repayment schedule

	Currency	Nominal interest Rate (%)	Year of maturity	Book value 2015 £000	Book value 2014 £000
Term loan	£	2.75 (2014:3.25) <sup>1</sup>	2019	126,699	129,646
Revolving credit facility term loan	£	2.75 (2014:3.25) <sup>1</sup>	2019	28,017	36,789
				<hr/>	<hr/>
				154,716	166,435
				<hr/>	<hr/>

<sup>1</sup> The margin on the new facilities has initially been set at 2.75% over LIBOR but reduces after that based on the ratio of the Group's net debt to the EBITDA. The overall margin is expected to be 2.75% over LIBOR.

At 30 September 2015 the group has available bank facilities totalling £195m, 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.

### 32 Trade and other payables

	2015 £000	2014 £000
Other creditors	2,238	2,393
	<hr/>	<hr/>



### 33 Called up share capital

	2015 £000	2014 £000
<b>Allotted, called up and fully paid:</b>		
62,133,535 (2014: 52,016,248) ordinary shares of 0.5p each	311	260
53,402 deferred shares of 0.5p each	-	-
	<hr/>	<hr/>
	311	260
	<hr/>	<hr/>

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights.

Details in respect of the reserves are given in note 21 to the group financial statements.

### 34 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total Company expense relating to these plans in the current year was £nil (2014: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2014: £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 20.)

### 35 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 44 and 46. This analysis forms part of these financial statements.

### 36 Staff numbers and costs

The Company has no employees (2014: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

### 37 Related parties

During the year the Company received dividends of £10,200,000 (2014: £nil) and received interest of £6,300,000 (2014: £nil) and fees of £70,000 (2014: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £216,811,000 (2014: £205,965,000).

### 38 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 Company, which primarily relate to credit, and liquidity risks, which arise in the normal course of the Company's business.

Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. The Company provides credit to subsidiaries in the normal course of business. The balance includes the amounts considered recoverable which also equals to their fair value. The Company has collateral in respect of the investments it holds in its subsidiary undertakings. During the year there was no charge to the income statement for bad or doubtful debts (2014: £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.

The receivables as at 30 September are inter-company balances as follows:

	2015 £000	2014 £000
Not due	216,811	205,965
Not more than three months past due		-
More than three months but not more than six months past due		-
More than six months past due		-
Trade receivables (note 30)	<u>216,811</u>	<u>205,965</u>

The fair values of these balances is equal to their carrying value.

#### Interest rate risk

The Company finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR.

#### Liquidity risk

The Company prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Company 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 their contractual cash flow maturities.

	Effective Interest rate %	Carrying Amount £000	2015 Contractual Cash Flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables	-	(2,238)	(2,238)	(2,238)	-	-
Secured bank loans	5%	(154,716)	(191,477)	(7,579)	(183,899)	-
		<u>(156,954)</u>	<u>(193,715)</u>	<u>(9,817)</u>	<u>(183,899)</u>	<u>-</u>
	Effective Interest rate %	Carrying Amount £000	2014 Contractual Cash flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables	-	(2,393)	(2,393)	(2,393)	-	-
Secured bank loans	5%	(166,435)	(191,784)	(16,703)	(175,081)	-
		<u>(168,828)</u>	<u>(194,177)</u>	<u>(19,096)</u>	<u>(175,081)</u>	<u>-</u>

### Capital risk management

The Company manages its capital to ensure that activities of the Company will be able to continue as a going concern whilst maximising returns for shareholders through the optimisation of debt and equity.

The Company's capital structure is as follows:

	2015 £000	2014 £000
Net debt	154,196	166,406
Equity	95,678	72,467

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 5.60p per share demonstrating a confident view of the Group's fundamental strength.

### Foreign currency risk

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

### Sensitivity analysis

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

At 30 September 2015 it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Company's profit before tax and equity by approximately £400,000 (2014: £450,000). 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 2015 £000	Fair value 2015 £000	Carrying amount 2014 £000	Fair value 2014 £000
<b>Loans and receivables:</b>				
Cash at bank and in hand	520	520	29	29
Trade receivables (note 30)	216,811	216,811	205,965	205,965
<b>Amortised cost:</b>				
Other payables (note 32)	(2,238)	(2,238)	(2,393)	(2,393)
Secured bank loans (note 31)	(154,716)	(154,716)	(166,435)	(166,435)

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 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 rate the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place.

## Directors and Advisers

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04457287

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<b>Directors</b>	
Farouq Sheikh	(Executive Chairman)
Haroon Sheikh	(Chief Executive Officer)
Michael Hill	(Group Finance Director)
Karl Monaghan	(Non-Executive Director)
Mike Adams	(Non-Executive Director)
Jamie Cumming	(Non-Executive Director)

**Company Secretary**  
Michael Hill

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