Extraordinary days every day

Annual Report
and Accounts 2011

CareTech
Holdings PLC

What we do

The CareTech Family of Services

Long established and innovative, the CareTech family of companies offer a comprehensive and complete social care service.

We deliver support to children and adults through a range of service options and provide solutions that are both individual and tailor made to each of our service users.

Within the field of Adult social care we provide for people with learning difficulties, individuals who have or are recovering from mental illness, people with autistic spectrum disorder and people who have one or more physical impairments.

Our child services cover residential care and a wide range of fostering options. We will carefully and professionally support any child irrespective of their reasons for being in public care. We also offer specialist 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.

Contents

Delivering consistent growth

Our business

Adult Learning Difficulties
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-funded support packages.

Young People Residential Services
are highly regarded specialised facilities that include education on or off site according to choice. With very high staff ratios and skilled professional teams these are highly effective schemes delivering good results.

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

Foster Care and Family Services
provide for both mainstream and specialist foster care in small supportive groups across the UK. Our family assessment service delivers court based family assessment at a very high level, helping the courts determine whether or not a child should enter the care system. We also carry out assessments to determine if it is safe for a child to return to the family home.

Financial highlights

Revenue
£109.2m up 22%
2010 £89.7m

Underlying EBITDA(i)
£23.2m up 4%
2010 £22.4m

Profit before tax(ii)
£15.9m down 3%
2010 £16.4m

Diluted earnings per share(ii)
25.35p down 8%
2010 27.59p

Cash inflows from operating activities(ii)
£22.2m up 12%
2010 £19.8m

Final dividends per share
4.00p up 9%
2010 3.66p

Capacity
2,056 places up 14%
2010 1,809

Capacity increase 158 from
3 strategic acquisitions
2010 6

Statutory highlights

EBITDA(iii)
£18.7m down 4%
2010 £19.4m

Profit before tax
£7.4m down 2%
2010 £7.6m

Diluted earnings per share
11.70p down 14%
2010 13.55p

Cash inflows from operating activities
£18.2m up 5%
2010 £17.4m

(i) Underlying EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items. Non-underlying items comprise amortisation of intangibles, acquisition expenses, bargain purchase credits, fair value adjustments on prior year acquisitions, gains or losses on disposal of plant and equipment, changes in value and additional finance payments in respect of derivative financial instruments, post acquisition integration and reorganisation costs, minimum future lease uplifts and provision for onerous leases, see note 5.
(ii) Before non-underlying items.
(iii) EBITDA is operating profit before depreciation, share based payments charge and amortisation of intangible assets.

High Quality Service

Delivering quality services and strong results

High quality services
Attaining consistently high scores from our internal quality audit and formal government regulators.

Our quality service

We have built quality into every service we provide. To ensure complete safety and security for our service users we focus considerable energy on a professional audit process, which is undertaken by a team which is independent from the operational divisions, intensively inspecting every service throughout the year. Backed by regular and frequent management inspections, routine supervision and high quality staff development programmes we feel that our services quality is second to none. The Government regulators, CQC or OFSTED and their equivalent regulators in Wales and Scotland also inspect all of our services, according to service category.

Our services by business

Adult Learning Difficulties

We have moved away from reliance on residential care and now offer a range of partnerships, directed as far as possible by those we are supporting.

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

Revenue increased by 5% to £75.7m

£75.7m

Young People Residential Services

A small number of children and young people need to live for a while in specialised residential services. As far as practicable we aim to help these children move into a more normalised family style environment whenever we can. Our internal partnerships with the CareTech fostering services provide a helpful tool for these moves. For longer stays in residential care we equip the young people for a successful progression into the adult world.

Revenue increased by 74% to £14.2m

£14.2m

Foster Care and Family Services

We believe that a family experience will offer the best solution for most "looked after" children and we have developed a network of local foster care services across the UK. These include foster care for children with very complex emotional or physical needs.

Our family assessment service is residential and carries out multidisciplinary whole family assessments on behalf of the courts or social services.

Revenue increased by 121% to £13.1m

£13.1m

Mental Health

We operate a step down psychiatric hospital for people recovering from mental illness, a range of residential services for people on their pathway back to an ordinary life and a wide spectrum of individually tailored community programmes in supported living schemes.

Revenue increased by 82% to £6.2m

£6.2m

Extraordinary partnerships

Partnership is vital

Gone are the days when care providers knew best. The CareTech approach is to work with all stakeholders to find and deliver the right solution for each person we support.

CareTech today

Expanding into new geographies

We have used our acquisitions strategy to open new geographical areas particularly in Wales and Scotland where market opportunities are significant for a high quality provider. We believe strongly in our ability to deliver outstanding services that meet the needs of our current service users and the users we have yet to meet.

Our presence

Adult Learning Difficulties
Capacity 2011

1,413

2010 1,352
Increase 5%
Market share less than 2%

- Residential care
- Independent supported living
- Community support services

Mental Health
Capacity 2011

134

2010 118
Increase 14%

- Residential care
- Low secure and stepdown
- Independent supported living and outreach

Young People Residential Services
Capacity 2011

108

2010 100
Increase 8%
Market share less than 1%

- Residential care
- Specialist EBD
- Independent supported living

Foster Care and Family Services
Capacity 2011

401

2010 239
Increase 68%
Market share less than 1%

- Foster care
- Family assessment

Our position within the market

Adult Learning Difficulties Market

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

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

Mental Health Market

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

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

Young People Residential Services Market

Market size
- 65,500 children are in public care in England alone – Department for Education Looked after Children Statistics 2011
- 17,000 are placed in residential settings
- It is estimated that in England there are 1.7m children and young people who require specialist teaching while 221,000 have a formal statement of special educational needs (SEN)
- There are 11,300 residential homes and the independent sector accounts for 7,200 of these

Trends
- There is a rising trend of "looked after" children across the UK
- Policy and cost drivers favour community options for care (especially fostering and adoption)
- Residential care will continue as the preferred option for those with complex needs or offending behaviours
- Outsourcing to the independent sector accelerates

Foster Care and Family Services Market

Market size
- 74% (48,530) of "looked after" children are placed in foster care in England– Department for Education Looked after Children Statistics 2011
- The market grew by 5.7% in England during 2009/10 while foster care grew by 7.5%
- Placements with independent foster agencies grew by 42% over the past five years
- In Scotland and Wales there are 9,000 young people in foster care
- Court directed family assessments reflect public anxiety about high risk families

Trends
- The rising trend of looked after children will continue for the foreseeable future and favours fostering for all but the most complex
- Adoption is a preferred option for some children but fostering will continue as the most likely solution
- Widespread unemployment increases family stress leading to more children being "looked after" It also increases the number of families willing to foster

The Group continues to perform well

Farouq Sheikh
Chairman

2011 has been another important year in the development of CareTech. I am pleased to report another sound set of results for the CareTech Group. This achievement is even more significant when one considers the prevailing economic backdrop. The past year has been challenging but has created opportunities for the Group, many of which have been stimulated by a complex economic and social care environment.

Key achievements in 2011 include implementation of a divisional structure, successful acquisitive and organic growth initiatives and the investment in and refocusing of resources. Together these create even stronger value to shareholders in the new economic environment.

The board has been conducting a strategic review of the most appropriate way to deliver value to shareholders. This review has led to the refinement of our business model, focusing on organic growth through the reinvestment of operating cash flows.

Results

Revenue of £109.2m (2010: £89.7m) for the year to 30 September 2011 represented growth of 21.7% and generated underlying EBITDA growth of 3.6% to £23.2m (2010: £22.4m).

There is a 3.6% growth in underlying Operating Profit to £20.4m (2010: £19.7m). Increasing financial expenses due to the net debt rising from £113.2m to £127.3m results in underlying profit before tax of £15.9m (2010: £16.4m).

Underlying Diluted earnings per share are 25.35p (2010: 27.59p) which arises due to the weighted number of shares rising by 3.3% when underlying profit after tax has come down by 5.3% to £12.6m (2010: £13.3m). The effective tax rate has risen from 19.0% to 20.6% which has increased the underlying tax charge by £0.2m to £3.3m, when underlying profit before tax had itself come down by £0.5m to £15.9m.

Cash inflows from operating activities before tax and non-underlying items paid of £22.2m (2010: £19.8m) were 12% higher than last year which further demonstrates the quality of the Group's income stream. Net debt at 30 September 2011 of £127.3m (2010: £113.2m) includes consideration for acquisitions announced during the second half of the year and further investment in the organic development of the Group.

Dividend

The Board has proposed a final dividend of 4.00p (2010: 3.66p) per share bringing the total dividend for the year to 6.00p (2010: 5.50p), being growth of 9%. The final dividend will be paid, subject to shareholder approval, on 17 February 2012 to shareholders on the register of members on 20 January 2012.

Our policy had been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share but the Board has taken the view that this policy should be reconsidered for 2011. The final dividend will therefore increase to 4.00p per share demonstrating a confident view of the Company's fundamental strength.

Strategic review

CareTech announced on 8 July 2011 that it was commencing a strategic review to evaluate the most appropriate method of delivering value to shareholders. This review included evaluation of a largely leveraged funded offer from management for the Company. Since this date the management team and their advisers have been successful in securing finance for an offer reflecting the attractiveness of the company to lenders. However, the terms, particularly in respect of junior leverage are not sufficiently attractive to allow the management to put forward a proposal at a price which the board currently believes to be compelling for shareholders.

This evaluation has been completed with little impact on the business, but it is now appropriate to draw it to a close. As part of the strategic review the Board has refined its business model to focus on growth initiatives which can be achieved through the reinvestment of operating cash flows. Implementation of this strategy has required an investment in additional personnel, further development of the care pathway and focusing resources on opportunities. With all of this the Board believes that CareTech is well equipped to deliver sustainable earnings growth without significant growth in net debt.

Strategy

Local Authority Social Service Departments are the principal sponsors of the people we support and our key partners with a shared commitment to high quality and best value. Public sector financial constraints have had a significant impact on Local Government finance although social care has to an extent been protected. Social care commissioners are increasingly looking at ways to manage the market more effectively and driving toward better value from provider organisations. This offers a good opportunity for flexible providers who can respond positively to the challenges faced by commissioners.

But financial constraint is not the only issue facing commissioners. A much more important, almost revolutionary, shift in social care moves control towards service users and drives fundamental change in the way services are delivered. I am confident that CareTech remains ahead of the change process and this has contributed to our success in the past year.

Commissioners and users share our passion for safe and effective service delivery. In line with our approach to continuous improvement the executive team recently carried out a high level review of our services and standards of care, cross referencing them and testing them against CQC reports. We are constantly alert to risk and will continue to manage our care provision with considerable diligence. Our approach has always been to "build in" quality but we also check and review the standards of delivery on a regular basis.

Last year we flagged our drive to develop services for children and people with mental health issues. The demand for this change has been exciting and we have made significant developments in fostering and specialist residential care for children. Key to our pace of change has been the creation of specialist divisions led by industry specialists and supported by a strong corporate team.

Our people

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

Outlook and prospects

The 2011 results demonstrate our ability to deliver a strong foundation in all four of our operating divisions, against very consistent strategic objectives. Our extended care pathway range of services, young services users, high-quality care provision and available capital for growth provide the Group with a strong platform to continue our successful trajectory.

With a carefully developed pipeline of organic initiatives complemented by a small number of bolt-on acquisitions, we are in a favourable competitive position to support local authorities and service users with an effective and growing range of services. I look forward with confidence to further progress in 2012.

Farouq Sheikh
Chairman
11 January 2012

Delivering results for us and our users

Haroon Sheikh
Chief Executive Officer

A strong foundation for growth

Continued development during the year has resulted in a comprehensive range of services which are delivered from an efficient and effective cost base. This places us in a favourable position across the market. Crucially, our commitment to quality control and regulatory compliance offers assurance that users of our services are safe and well supported on their own pathway to success in life.

Overview of progress

During the year to 30 September 2011 we have continued to deliver growth, both organically and by acquisition, and have developed an operational platform which will deliver our strategy.

Capacity during the year increased by 247 so that we are able to support up to 2,056 vulnerable Children and Adults. Capacity has grown by 14%. Occupancy levels in the mature state have been maintained at 92% and 87% including facilities being developed.

Organic initiatives, including small bolt-on acquisitions (net of reconfigurations) contributed 89 places towards the Group's overall capacity increase during the financial year. Supported living services continue to be developed across the Group in response to market demand. We continue to invest in our portfolio of freehold properties including reconfiguration projects where the nature of service is modified in order to support the changing needs of service users and/or their respective placing commissioners.

During the second half of the 2011 financial year we announced the acquisition of TLC (Wales) Limited in the Interim report in June 2011 and the only bolt-on acquisition afterwards was Complete Care and Enablement Service Limited in July.

Our internal management structure has been further developed and strengthened. The operational teams for the four divisions have been reinforced by experienced sector specialists joining the Group. In addition, there has been further investment in our infrastructure including finance, human resources and quality.

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

Strategic acquisitions

For the first part of the year acquisitions were undertaken in line with our strategy of extending the care pathway range of services and expanding the geographical reach of the Group. We have made three strategic acquisitions during the year, the last of which was in July and three organic bolt-ons. The six acquisitions have a combined consideration of £12.6m including deferred and contingent consideration of £2.0m which together are expected to be accretive to earnings in the first full year of operation. Some of the key attractions of each strategic acquisition are as follows:

Care UK Foster Care Limited together with Foster Support Group Limited ("CareTech Foster Care") was established in 1989 as Foster Support Group and continued to grow its market share in Fostering from its base in Margate, Kent. It was acquired by Care UK Limited who also opened an office in London so that the business could provide an outsourcing solution to local authorities across London, the South East and the Midlands. On acquisition 74 children, aged from birth to 18 years old, were cared for by CareTech Foster Care's foster carers for funding authorities located mainly in London, Kent and Shropshire. These foster carers sit well alongside the foster carers that are with Outlook as for example both CareTech Foster Care and Outlook have

children in placement from London Local Authorities, only the CareTech Foster Care carers reside within London whilst the Outlook carers reside in areas like Sussex, Kent and Essex.

Phoenix Therapy and Care Limited ("Phoenix") is a domiciliary care agency supporting people in their own homes who have acquired a brain or spinal cord injury. It is based near Edinburgh. On acquisition it had 14 service users.

Professional Integrated Care Services Limited together with TLC (Wales) Limited ("TLC") is a high quality specialist provider of fostering services with well established relationships with Local Authorities across Wales. TLC is based in Cross Hands near Llanelli and joined the group with 70 child placements. Its specialisation is the care of children with disabilities and over the years TLC has built and trained a highly experienced group of carers who provide outstanding services. The complex needs of the children include attention deficit disorder, autistic spectrum disorder and sensory impairments.

Care pathway range of services

The Group's focus remains as a provider of specialist social care. This is underpinned by a well defined range of provision which meet all of the commissioners requirements. These services are now extensive and focused on providing quality care and positive outcomes for all of our service users within the personalisation agenda.

The range of services that are offered by the Group to meet market demand are described as a care pathway. We have four care pathways and these are also our business segments for reporting purposes:

(1) Adult Learning Difficulties

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

Turnover for 2011 was £75.7m (2010: £72.2m) and EBITDA for 2011 was £18.0m (2010: £19.9m) with capacity closing at 1,413 (2010: 1,352).

The principal reasons for the fall in EBITDA of £1.9m was fee pressure from Local Authorities and reconfiguration of homes.

(2) Young People Residential Services

This segment is Childrens Residential care homes which includes facilities for children with learning difficulties and emotional behavioural disorders ("EBD").

Turnover for 2011 was £14.2m (2010: £8.2m) and EBITDA for 2011 was £4.5m (2010: £2.6m) with capacity ending 2011 at 108 (2010: 100).

(3) Mental Health

The Adult services for this care pathway include a community based hospital, adult residential care homes, independent supported living and community outreach.

Turnover for 2011 was £6.2m (2010: £3.4m) and EBITDA for 2011 was £1.9m (2010: £1.0m) with capacity ending 2011 at 134 (2010: 118).

(4) Foster Care and Family Services

Child Fostering covers both mainstream foster care services and specialist provision such as care for children with disabilities, and Residential and Foster Care Family Assessments.

Turnover in 2011 was £13.1m (2010: £5.9m) and EBITDA for 2011 was £3.2m (2010: £1.9m) with capacity ending 2011 at 401 (2010: 239).

There are unallocated Group overheads in 2010 of £3.0m and 2011 of £4.4m which bring the EBITDA to the underlying Group EBITDA in 2010 of £22.4m and 2011 of £23.2m.

Principal risks

The Group has policies and processes in place to identify, mitigate and manage operational risks. Despite the strength of our policies and procedures we have adopted a model of continuous improvement led by our skilled executive team.

There are a number of key issues which could have a material impact on our reputation, operations or financial performance and these are:

Risk and mitigation

Principal risks	Risk management
Failure to deliver high standards of care.	The Group invests in training and improving its staff, complemented by a comprehensive internal quality and compliance team working under the leadership of our Director of Quality and Performance.
Compliance with regulations, legislation or duties of care in different regulatory and legal structures.	Services are regulated by Ofsted and the Care Quality Commission ("CQC") or the equivalent in Wales and Scotland. External regulators work closely with our service managers and their Operations Directors.
Attracting, retaining and developing talent.	The Group has a proven management structure for each segment with clear principles of delegation and authority supported by written policies and procedures, backed up with a culture of open communication and "whistleblowing" policies.
Significant changes in government policy or legislation in England, Scotland or Wales that impact market opportunities or operating performance.	Significant changes in policy or legislation are anticipated, monitored and reported through to the Executive who examine closely any potential impact on the business.
Managing profit margins if movements in operating costs are detrimental relative to changes in fee rates.	Weekly monitoring and monthly financial reporting ensures that any movements in operating costs are quickly highlighted and acted upon.
Maintaining occupancy levels.	Occupancy is driven by reputation for effectiveness, skill base service availability and the underlying relationships with commissioners. Referrals are dealt with by experienced care staff who try to match local authority placement requirements to our services to retain occupancy levels.
Business continuity.	Business continuity is subject to detailed planning and covers events such as pandemic illness, major industrial action, terrorism and extreme weather conditions.
Funding to meet current and future business requirements.	The Group monitors its bank facilities regularly to ensure that it has suitable headroom and is making the best use of new financial products. In 2012 the Group's facilities will be renegotiated as the current facility runs to April 2013.

As outlined on the next page the Group monitors and regularly reviews key performance indicators to highlight change. Insurance policies are maintained and the adequacy of these are reviewed at regular intervals.

Large and growing market

It is estimated that across the UK there are 1.4m adults with learning difficulties ("LD") of which around 185,000 need care and support costing a total of £7.4 billion. The residential adult LD component of this market is worth £3.2 billion and cares for 54,000 individuals whilst the residential MH element amounts to £1.3 billion and 29,000 people. The remaining £2.9 billion of care is provided to adults who require supported living, community outreach services etc.

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

2.4% of the adult population of the UK will be referred to a specialist psychiatric service at some time. The total current local authority and NHS spend on mental health is around £12 billion per annum.

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

The market for specialist children's services is also large and highly fragmented. Across England alone there are 65,500 children looked after and this market grew by 2% during the past year and 74% (48,530 places) of these children are in foster care which costs £1.1 billion per annum in total. CareTech has less than a 0.5% market share and local authorities themselves facilitate 57% of the fostering services.

Residential children's services provides for about 7,910 children in England and CareTech has a market share of less than 2%.

Our chosen markets are large and growing, yet highly fragmented. We are a leading player with less than 2% market share across the care pathway range of services.

Strategy, objectives and key performance indicators ("KPI's")

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

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

To measure the Group's performance against its objectives a number of KPIs are monitored, including the following:

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

Outlook

The economic conditions remain complex and the pressure on public spending presents both challenges and opportunities in our market.

As one of the largest and strongest providers of services in our sector, with a robust balance sheet and effective business model, we are well positioned to gain further market share through organic initiatives supported by small bolt-on acquisitions.

Our workforce is strong and we will continue the development of skills backed by their drive to deliver outstanding results for the people we support. With my colleagues across the organisation I look forward with enthusiasm and confidence to the year ahead.

Haroon Sheikh
Chief Executive Officer
11 January 2012

Building our team to support growth

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

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

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

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

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

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

Extraordinary people

Committed and caring

The care world is full of extraordinary people who have dedicated their lives to helping and supporting others. We are proud of our skilled and trained workforce and their achievements each and every day.

The Group has continued to make considerable progress during the year

Michael Hill
Group Finance Director

Overview

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

The Group has continued to make considerable progress during the year.

The underlying operating cash flow remains strong at £22.2m compared to £19.8m last year, with the key focus in 2010 of making strategic acquisitions to gain market share and extend the care pathway range of services slowing down in 2011. There were 4 acquisitions in the first half and 2 in the second half of 2011 but the focus has moved to organic developments and cost efficiencies during 2011 and for 2012.

Income statement

The Consolidated Income Statement, before non underlying items, for the year is summarised below:

	2011 £m	2010 as restated £m	Growth
Revenue	**109.2**	89.7	21.7%
Gross profit	**42.7**	37.4	
Administrative expenses less depreciation	**(19.5)**	(15.0)	
Underlying EBITDA	**23.2**	22.4	3.6%
Underlying EBITDA margin	**21.2%**	25.0%	
Depreciation	**(2.7)**	(2.5)	
Share-based payments charge	**(0.1)**	(0.2)	
Underlying operating profit	**20.4**	19.7	3.6%
Net financial expenses	**(4.5)**	(3.3)	
Underlying profit before tax	**15.9**	16.4	(3.0%)
Taxation	**(3.3)**	(3.1)	
Effective tax rate	**20.6%**	19.0%	
Underlying profit for the year	**12.6**	13.3	
Weighted average number of diluted shares (millions)	**49.7**	48.1	(3.3%)
Underlying diluted earnings per share	**25.35p**	27.59p	(8.1%)
Full year dividend per share	**6.00p**	5.50p	

Revenue

Revenue of £109.2m (2010: £89.7m) was 21.7% higher than in 2010. Excluding the revenue generated by the six 2011 acquisitions, revenue grew by 13.9%.

In the established Adult Learning Difficulties segment we continued to experience high levels of occupancy and reported 92% occupancy at 30 September 2011. When blended with facilities under development the overall occupancy level during the second half of the year and at 30 September 2011 was 87% of capacity (September 2010: 86% of capacity). Demand for residential services continues to be robust for high acuity users.

As set out in the Chief Executive's statement and note 3 to the Accounts we are reporting segmental information for the financial year and last year. Information on client capacity and turnover for all of the 4 segments is now reported.

	2011 Revenue £m	2011 Underlying EBITDA £m	2010 Revenue £m	2010 Underlying EBITDA £m
Adult Learning Difficulties	**75.7**	**18.0**	72.2	19.9
Young People Residential Services	**14.2**	**4.5**	8.2	2.6
Foster Care and Family Services	**13.1**	**3.2**	5.9	1.9
Mental Health	**6.2**	**1.9**	3.4	1.0
	109.2	**27.6**	89.7	25.4
Less unallocated group costs	**–**	**(4.4)**	–	(3.0)
	109.2	**23.2**	89.7	22.4

Development of our care pathway and an improving range of service options has led to the proportion of Adult Learning Difficulties turnover moving from 80.5% in 2010 to 69.4% in 2011.

Underlying EBITDA

Including acquisitions, underlying EBITDA has grown by 3.6% from £22.4m in 2010 to £23.2m in 2011. Underlying EBITDA margin has reduced from 25% to 21.2% due to our infrastructure investments, reconfiguration of existing homes and fee rate pressures from local authorities as well as the segment mix.

The Young People Residential Services and Mental Health segments have higher margins but require considerable capital investment, whilst the Fostering Services operate on lower profit margins partly because they do not require high levels of organic capital. Adult Learning Difficulties margin has come down due to fee pressures and new services such as Supported Living and Domiciliary Care having different returns compared to the organic development and reconfigured services.

Administrative expenses, before depreciation and share-based payments charges, were £19.5m (2010: £15.0m) and increased by £4.5m during the year and represent 17.9% of Group revenue. Property rental costs of £6.8m are included within these administrative expenses and are 6% of revenue. The year also saw investment in the operating and management structure of each segment in order to facilitate future growth.

Underlying operating profit and underlying profit before tax

The depreciation charge has risen to £2.7m (2010: £2.5m) and reflects the investment in freehold properties and the fixtures, fittings and equipment in the homes plus motor vehicles. After this charge and the share-based payments, underlying operating profit grew by 3.6% to £20.4m (2010: £19.7m).

Net financial expenses of £4.5m (2010: £3.3m) increased over the previous year due to the higher use of the secured bank loans which rose from their 2009 level due to the strategic acquisitions and capital investment in particular in 2010 and also in 2011.

As a result of the higher depreciation charge and higher financial expenses the underlying profit before tax of £15.9m (2010: £16.4m) has reduced by 3.0%.

Taxation and diluted earnings per share

The effective tax rate has risen a little to 20.6% (2010: 19.0%) and reflects management's expectations of future capital investment through organic development relative to available capital allowances and also reflects the impact of the rate reduction in the year.

The weighted number of shares in issue rose by 3.3% whilst the underlying diluted earnings per share came from 27.59p in 2010 to 25.35p in 2011.

Dividends

Our policy had been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share but the Board has taken the view that the policy should be reconsidered for 2011. The final dividend will therefore increase to 4.00p per share (2010: 3.66p), bringing the total dividend for the year to 6.00p (2010: 5.50p), a growth of 9%. Dividend cover for 2011, based upon diluted earnings per share before non underlying items, was 4.23 times (2010: 5.0 times).

Non underlying items

As more fully explained on the face of the Consolidated Income Statement and in note 5 to the Accounts, the Directors have separately disclosed a number of non underlying items on the face of the income statement in order to improve understanding of the trading performance achieved by the Group. Total non underlying items are £6.8m (2010: £6.8m) which is 6.2% of revenue (2010: 7.5%) and the principle items are acquisition transaction costs, amortisation of intangible assets, post acquisition integration and reorganisation costs and adjustments to minimum future lease payment uplifts.

Cash flow and net debt

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

	2011 £m	2010 as restated £m
Underlying EBITDA	**23.2**	22.4
Increase in working capital	**(1.0)**	(2.6)
Cash inflows from operating activities	**22.2**	19.8
Tax paid/(received)	**(1.3)**	0.2
Interest paid	**(4.8)**	(3.3)
Dividends paid	**(2.8)**	(2.3)
Proceeds from the issue of shares	**–**	14.6
Acquisitions and capital expenditure	**(20.7)**	(43.4)
Cash flow before non underlying items	**(7.4)**	(14.4)
Non underlying cash flows including derivative financial instruments	**(6.7)**	(5.4)
Movement in net debt	**(14.1)**	(19.8)
Opening net debt	**(113.2)**	(93.4)
Closing net debt	**(127.3)**	(113.2)

Net debt at 30 September 2011 of £127.3m (2010: £113.2m) has increased by £14.1m during the financial year, with an investment of £22.4m in acquisitions and capital improvements during the year.

Non underlying items had a cash outflow effect of £3.9m being payment of acquisition and integration costs and settlements arising from derivative financial instruments contributed a cash outflow of £2.8m (2010: £3.0m).

Underlying cash inflows from operating activities

The £22.2m (2010: £19.8m) cash inflow from operating activities, before non underlying items, represents a 96% (2010: 88%) underlying EBITDA cash conversion ratio, being a further year on year enhancement.

Tax, interest and dividend cash flows

Interest paid of £4.8m (2010: £3.3m) is reflective of the net financial expenses per the Consolidated Income Statement, whilst dividends paid are consistent with the relevant section earlier in the review.

Net tax payments of £1.3m (2010: £0.2m received) were made in the year.

Acquisitions and capital expenditure

During the year we invested funds of £20.4m (2010: £43.4m) and, in addition, estimated that £2m may become payable as deferred and contingent consideration in respect of acquisitions completed during the year.

	Settled £m	Cash balances acquired £m	Funds Invested £m	Deferred and contingent consideration £m	Total £m
Acquisitions in year	10.9	(0.3)	10.6	2.0	12.6
Prior year deferred consideration	3.0	–	3.0	–	3.0
Capital expenditure	6.8	–	6.8	–	6.8
	20.7	**(0.3)**	**20.4**	**2.0**	**22.4**

The investment of £12.6m relates to the strategic acquisition of Care UK Foster Care Limited together with Fostering Support Group, Phoenix Therapy and Care, Cameron Care, Selwyn Care, TLC (Wales) and Complete Care; further details of which are explained in the Chief Executive's Statement and Operating Review as well as in the notes to the financial statements.

Deferred consideration of £3m was settled in cash during the year, mainly relating to acquisitions in the Fostering and Family Assessments division.

Capital expenditure of £6.8m includes £3m to update our portfolio of assets.

Banking arrangements

The Group is pleased to have continued its strong relationships with RBS, Lloyds and Santander, following the refinancing of the debt facilities in 2010. Those facilities expire in April 2013 and will be renegotiated in 2012.

These facilities have certain covenants attached to them which are principally EBITDA related. The Group has continued to operate comfortably within its bank covenants and at 30 September 2011 has sufficient facility headroom to support the strategy of developing our services and organic care pathway additions.

The Group holds a number of interest rate swaps in order to provide a degree of certainty to interest cash flows.

Outlook

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

Michael Hill

Michael Hill
Group Finance Director
11 January 2012

Extraordinary experiences

Relationships are the key test
People in residential services or public care can have very restricted sets of relationships. We work hard to ensure that users of our services have a wide range of relationships, especially with people who are not paid to be there.

Similarly we aim to ensure that users of our services have a full range of normal life experiences that wherever possible include work, leisure and exciting activities.

Board of Directors
A focused and committed team

1 2 3 4

Biographies

1- Farouq Sheikh Executive Chairman (aged 53)
Farouq has been a key architect in CareTech's growth, having been involved in the vision and strategy from the outset in 1993. With a background in law and a good understanding of finance and commerce, Farouq has been instrumental in securing debt and equity funding for the Company as well as leading the management team in winning a number of long-term contracts from local and health authorities.

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

2- Haroon Sheikh BSc Chief Executive Officer (aged 55)
Haroon Sheikh, a London University graduate, is one of the founder members of CareTech. Haroon brings commercial acumen, related industry experience and property knowledge which has been essential in the growth of the business. He has been actively involved with CareTech since its inception in 1993 and in his role as Chief Executive Officer he has had a major part in the success of the Group.

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

3- Michael Hill Dip.M, FCIM, FCA, MBA
Group Finance Director (aged 60)
Michael qualified as a chartered accountant with Deloittes 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 and Family Services division. He became Group Finance Director on 2 August 2011 and he is also Company Secretary.

4- Stewart Wallace Strategic Director (aged 62)
Stewart Wallace qualified as a social worker in 1971, subsequently obtaining an MA in Social Policy. He gained wide experience in London as a practitioner, policy advisor and senior manager before joining Harlow Council as Head of Community Services in 1986. In 1992, he was appointed Director of Development in what is now the Surrey Oaklands NHS Trust. Subsequently he was appointed General Manager of the Trust's learning disability division. He returned to social services in 1997 as a senior operations manager before joining the board of Care Solutions Limited, a Care UK plc subsidiary, as Development Director. He joined CareTech in November 2000 as Development Director. Stewart is a Non-Executive Director of an NHS Trust, is in demand as a commentator on both health and social care policy and continues his status as a social worker registered with the General Social Care Council.


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5- Karl Monaghan Non-Executive Director (aged 49)

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

6- Christa Echtle Non-Executive Director (aged 53)

Christa studied Sociology (BA) and Psychology (MA) at the University of Wuerzburg in Germany and gained an MBA in 1996. Christa has over 25 years' experience working with the public sector. She has substantial healthcare recruitment experience and was CEO of the Reed Health Group plc until 2003. Since then she has worked for Private Equity in a number of executive and non-executive Chairman positions ranging from specialist recruitment, specialist childcare and healthcare IT services.

7- Mike Adams Non-Executive Director (aged 40)

Mike has a significant track record in the social care and disability sectors. For 5 years he was Director of the National Disability Team, responsible for policy and practice for disabled students in higher education. Mike was Director of Operations for the Disability Rights Commission for 2 years and has been Chief Executive Officer of Essex Coalition of Disabled People, a leading user-led organisation, since October 2007. Mike spent 18 months as acting Chair of a large acute hospital trust in Essex and has previously undertaken the role of a visiting professor at Leeds Metropolitan University.

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2011.

Principal activities

The Group's principal activity during the year was the provision of a range of specialist care and housing support services throughout the UK for people with learning and physical disabilities.

Business review and future developments

The consolidated statement of comprehensive income detailed on page 30 sets out the Group's financial results for the year.

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's Statement on pages 6 and 7, the Chief Executive's Statement and Operating Review on pages 8 to 11, and the Financial Review on pages 14 to 16, which are incorporated in this report by reference. These reports also include details of the performance of the Group during the year ended 30 September 2011 and its prospects for the future.

Key performance indicators are set out in the "Highlights" on page 1. The key risks and uncertainties facing the Group are set out in this report below.

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 Chief Executive's Statement and Operating Review on pages 8 to 11.

Dividends

Dividends of £1,815,000 and £987,000 (total £2,802,000) have been paid during the year. The Directors propose a final dividend of 4.00p per share (2010: 3.66p) subject to approval at the forthcoming Annual General Meeting.

Share listing

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Company's share capital, including movements during the year are set out in note 21 to the financial statements.

Charitable and political donations

No charitable or political donations were made during the year (2010: £nil).

Financial instruments

The Group is exposed to a combination of price, credit, interest rate and cash flow risks. The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. Disclosures in respect of these instruments are set out in note 24 to the financial statements.

Payment of commercial debts

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

The number of days' purchases ("creditor days") outstanding for payment by the Group at the year end was 27 days (2010: 14 days). The Parent Company, CareTech Holdings PLC, is a holding company and does not trade.

Employees

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

The Group operates a 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 with the Group through retraining, acquisition of special aids and/or equipment or the provision of suitable alternative employment.

Environment

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

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 15 February 2011, 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 2011, being the date of the preliminary results announcement, the Company had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Company, other than those in respect of Directors which are set out in the Remuneration Report on page 23.

	No. of ordinary shares of 0.5p	Percentage
Henderson Global Investors	6,175,872	12.45%
Richard Griffiths	4,026,853	8.12%
JO Hambro Capital Management	3,900,000	7.86%
Standard Life Investments	3,334,991	6.73%
Schroder Investment Management	2,173,415	4.38%

Directors

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

In accordance with the articles of association, Haroon Sheikh and Stewart Wallace retire by rotation and, being eligible, offer themselves for re-election. Having been appointed since the last AGM, Michael Hill offers himself for reappointment.

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

Farouq Sheikh
Haroon Sheikh
David Pugh (resigned 2 August 2011)
Stewart Wallace
Karl Monaghan
Christa Echtle
Mike Adams
Michael Hill (appointed 2 August 2011)

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

Directors' insurance

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

Going concern

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

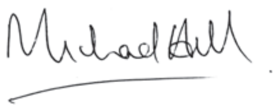
Auditors

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

Disclosure of information to the auditors

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

By order of the Board



Michael Hill
Company Secretary
11 January 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Remuneration Report

This report is approved by the Board and follows guidance laid down in the Companies Act 2006 and the UK Corporate Governance Code, as far as is reasonably practicable for a public company of CareTech's size.

Remuneration Committee

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

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.

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

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

Remuneration philosophy

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

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

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

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

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

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

Directors' service agreements

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 3 months' notice of termination on either side.

External appointments

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

Directors' remuneration (audited)

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

	Salary and fees		Benefits		Annual bonus		Total		Pension	
Year to 30 September	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Current Directors										
Farouq Sheikh	**302**	300	**36**	38	**–**	37	**338**	375	**6**	6
Haroon Sheikh	**204**	200	**33**	31	**–**	50	**237**	281	**9**	9
Stewart Wallace[1]	**95**	80	**30**	30	**–**	20	**125**	130	**3**	3
Karl Monaghan	**43**	39	**–**	–	**–**	–	**43**	39	**–**	–
Christa Echtle	**37**	37	**–**	–	**–**	–	**37**	37	**–**	–
Mike Adams	**28**	7	**–**	–	**–**	–	**28**	7	**–**	–
Michael Hill	**16**	–	**–**	–	**–**	–	**16**	–	**–**	–
Former Directors										
Richard Steeves[2]	**–**	34	**–**	–	**–**	–	**–**	34	**–**	–
David Pugh[3]	**348**	153	**22**	59	**–**	38	**370**	250	**6**	8
Total	**1,073**	850	**121**	158	**–**	145	**1,194**	1,153	**24**	26

1 Stewart Wallace is contracted on a 4 day per week basis.
2 Resigned as Director on 15 April 2010.
3 Resigned as Director on 2 August 2011. His remuneration for 2011 includes payments of £183,000 for loss of office.

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 2011 Number of ordinary 0.5p shares	30 September 2010 Number of ordinary 0.5p shares
Westminster Holdings Limited[1]	**10,422,500**	10,422,500
Cosaraf Trust[2]	**2,060,000**	2,060,000
Cosaraf Pension Fund[3]	**70,000**	20,000
Farouq Sheikh	**485,000**	485,000
Haroon Sheikh	**485,000**	485,000
Stewart Wallace	**473,374**	473,374
Autovibe Limited[4]	**332,750**	319,750
Karl Monaghan	**31,250**	31,250
Paragon (Premier) Properties Limited[5]	**5,916**	5,916
Mike Adams	**2,300**	2,300
Former Directors		
Richard Steeves	**–**	15,625
David Pugh	**16,150**	10,000

1 Westminster Holdings Limited is a company owned by a trust, the beneficiaries of which include Farouq Sheikh and Haroon Sheikh.
2 Cosaraf Trust is a trust whose beneficiaries are the children of Farouq Sheikh and Haroon Sheikh. Farouq Sheikh and Haroon Sheikh are the trustees of this trust.
3 Cosaraf Pension Fund is a self-administered scheme established for the benefit of Farouq Sheikh and Haroon Sheikh.
4 Autovibe Limited is a company wholly-owned by Wendy Wallace, the wife of Stewart Wallace, Strategic Director.
5 Paragon (Premier) Properties Limited is a company wholly-owned by Christa Echtle, Non-Executive Director, and her husband.

Directors' share options

None of the Directors have any share options in the Company.

By order of the Board

Christa Echtle
Chairman of the Remuneration Committee
11 January 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

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.

As a Company quoted on AIM, a market operated by the London Stock Exchange, the Company is not required to comply with the UK Corporate Governance Code (the "Code").

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

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

Who is on our Board?

As Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Chief Executive is Haroon Sheikh; David Pugh was the Group Finance Director until the date of his resignation on 2 August 2011 after which Michael Hill took on the role and Stewart Wallace is Strategic Director. The Directors' biographies appear on pages 18 to 19 and detail their experience and suitability for leading and managing the Group.

Karl Monaghan, the senior independent director, Christa Echtle and Mike Adams are the 3 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 3 years and new Directors are subject to election by Shareholders at the first opportunity following their appointment.

As a Company quoted on AIM, a market operated by the London Stock Exchange, the Company is not required to comply with the UK Corporate Governance Code (the "Code"). However, the Group has complied with the provisions of the Code with the following exceptions:

1. Farouq Sheikh, as Executive Chairman has responsibilities for both the organisation of the Board and running of the Group's business.
2. There is currently no annual formal evaluation of the Board, its Committees or individual Directors. The Board did not consider it appropriate to carry out an evaluation exercise during the year but will consider this issue again during the current year.

How do we deal with conflicts of interest?

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

Board and Committee meetings

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

The Directors attended the following meetings in the year to 30 September 2011:

	Board	Audit Committee	Remuneration Committee
Farouq Sheikh	11	1	1
Haroon Sheikh	10	2*	1
David Pugh	10	2*	–
Michael Hill	–	–	–
Stewart Wallace	11	2*	–
Karl Monaghan	10	3	1
Christa Echtle	10	3	1
Mike Adams	11	2*	–

* By invitation.

What decision-making responsibilities do 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.

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

The Audit Committee comprises Karl Monaghan (Chairman) and Christa Echtle, and Farouq Sheikh up until 1 May 2011. The Group Finance Director and representatives of the external auditors attend meetings by invitation as required. The Committee meets at least twice each year and receives reports from the Company's management and external auditors relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditors and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. Details of the amount paid to the external auditors during the year, for audit and other services, are set out in note 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 22 to 23. Also detailed in that report are Directors' remuneration, shareholdings and share option scheme information.

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

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.

Corporate Governance Report

continued

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 discharged 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.

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

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

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

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

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

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

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

By order of the Board

Michael Hill
Company Secretary
11 January 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Corporate Social Responsibility

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

We care about our service users

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

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

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

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

We care about the environment

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

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

We continue to aim for minimal waste production and waste-free processes. Encouraging the involvement of our workforce in seeking new ways to "be green" is important and we are 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 striving for energy efficiency.

We care about our staff

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

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

Equal opportunity for all remains at the heart of our recruitment policies and the diversity of our workforce bears this out. We value our staff at all levels and work closely with them through our robust human resources department to foster consultation in all matters, ensure fair pay for all, maximise conditions of service and facilitate flexible working where feasible.

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

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

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

We care about quality and safety

As a Group, our aim is to provide an injury-free working environment for service users, staff and visitors. We value the well-being of all stakeholders and strive to 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. We continue to resource our own highly experienced internal quality team which undertakes a programme of regular inspection and assessment and gives constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice and procedures are maintained.

We care about our communities

Doing business the right way is of fundamental importance to us. A successful business needs to operate in healthy, thriving communities and needs to be seen as a good neighbour to those communities.

We have direct involvement in a variety of community-based programmes further improving our service reputation and helping to foster a strengthened relationship with local authorities.

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.

Our business has made a significant contribution to the communities in which we operate as in the last financial year we have paid £43.8m (2010: £35.2m) in net wages to our employees, made contributions of £7.6m (2010: £10.9m) to our providers of capital and paid £17.1m (2010: £15.4m) to the Government in social security payments, corporation tax and irrecoverable VAT.

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

Independent 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 2011 which comprise the consolidated statement of comprehensive income, consolidated and Parent Company statement of changes in equity, consolidated and Parent Company balance sheet, consolidated and Parent Company cash flow statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 28, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Graham Neale
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
11 January 2012

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011

		2011			2010 as restated(iii)		
	Note	Underlying £000	Non-underlying(i) £000	Total £000	Underlying £000	Non-underlying(i) £000	Total(iii) £000
Revenue	3	109,150	–	109,150	89,697	–	89,697
Cost of sales		(66,487)	–	(66,487)	(52,321)	–	(52,321)
Gross profit		42,663	–	42,663	37,376	–	37,376
Administrative expenses		(22,312)	(8,105)	(30,417)	(17,704)	(3,936)	(21,640)
Operating profit		20,351	(8,105)	12,246	19,672	(3,936)	15,736
EBITDA(ii)		23,209	(4,521)	18,688	22,438	(3,049)	19,389
Depreciation	12	(2,680)	–	(2,680)	(2,496)	–	(2,496)
Amortisation of intangible assets	13	–	(3,584)	(3,584)	–	(887)	(887)
Share-based payments charge		(178)	–	(178)	(270)	–	(270)
Operating profit		20,351	(8,105)	12,246	19,672	(3,936)	15,736
Financial income	8	32	–	32	23	–	23
Financial expenses	5,8	(4,512)	(350)	(4,862)	(3,293)	(4,903)	(8,196)
Profit before tax		15,871	(8,455)	7,416	16,402	(8,839)	7,563
Taxation	5,9	(3,274)	1,670	(1,604)	(3,121)	2,079	(1,042)
Comprehensive income for the year attributable to equity shareholders of the parent		12,597	(6,785)	5,812	13,281	(6,760)	6,521
Earnings per share							
Basic	10			11.72p			13.63p
Diluted	10			11.70p			13.55p

(i) Non underlying items comprise: amortisation of intangibles, acquisition expenses, bargain purchase credits, fair value adjustments on prior year acquisitions, gains or losses on disposal of plant and equipment, changes in value and additional finance payments in respect of derivative financial instruments, post acquisition integration and reorganisation costs, minimum future lease uplifts 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.
(iii) See note 4.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2011

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2009	225	38,852	5,037	3,300	47,414
Total comprehensive income					
Profit for the year	–	–	–	6,521	6,521
Transactions with owners recorded directly in equity					
Issue of ordinary shares	23	14,663	3,461	–	18,147
Equity settled share-based payments charge	–	–	–	270	270
Dividends	–	–	–	(2,326)	(2,326)
At 30 September 2010	248	53,515	8,498	7,765	70,026
At 1 October 2010	248	53,515	8,498	7,765	70,026
Total comprehensive income					
Profit for the year	–	–	–	5,812	5,812
Transactions with owners recorded directly in equity					
Equity settled share-based payments charge	–	–	–	178	178
Dividends	–	–	–	(2,802)	(2,802)
At 30 September 2011	**248**	**53,515**	**8,498**	**10,953**	**73,214**

Consolidated Balance Sheet

at 30 September 2011

	Note	2011 £000	2010 £000 as restated(i)	2009 £000 as restated
Non-current assets				
Property, plant and equipment	12	**189,504**	184,139	160,330
Other intangible assets	13	**36,483**	26,935	2,619
Goodwill	13	**30,059**	26,159	15,954
		256,046	237,233	178,903
Current assets				
Inventories		**315**	152	144
Trade and other receivables	15	**10,066**	11,282	10,253
Cash and cash equivalents	16	**13,414**	10,008	4,321
Tax recoverable		**–**	–	464
		23,795	21,442	15,182
Total assets		**279,841**	258,675	194,085
Current liabilities				
Loans and borrowings	17	**7,460**	5,866	6,125
Trade and other payables	18	**11,691**	13,684	9,211
Deferred and contingent consideration payable	23	**6,596**	6,582	6,868
Deferred income		**2,772**	3,252	4,467
Corporate tax		**4,139**	2,967	–
Derivative financial instruments		**2,921**	2,877	2,904
		35,579	35,228	29,575
Non-current liabilities				
Loans and borrowings	17	**133,271**	117,389	91,585
Deferred and contingent consideration payable	23	**–**	600	–
Deferred tax liabilities	19	**23,633**	20,905	12,710
Derivative financial instruments		**945**	3,437	3,271
Minimum future lease payments		**12,553**	11,090	9,530
Onerous lease provision	25	**646**	–	–
		171,048	153,421	117,096
Total liabilities		**206,627**	188,649	146,671
Net assets		**73,214**	70,026	47,414
Equity				
Share capital	21	**248**	248	225
Share premium		**53,515**	53,515	38,852
Merger reserve		**8,498**	8,498	5,037
Retained earnings		**10,953**	7,765	3,300
Total equity attributable to equity shareholders of the parent		**73,214**	70,026	47,414

(i) See note 4.

These financial statements were approved by the Board of Directors on 11 January 2012 and were signed on its behalf by:

F. Sheikh
Chairman

M. G. Hill
Group Finance Director

Company number: 4457287

Consolidated Cash Flow Statement

for the year ended 30 September 2011

	Note	2011 £000	2010 £000 as restated[i]
Cash flows from operating activities			
Profit before tax		**7,416**	7,563
Adjustments for:			
Financial income		**(32)**	(23)
Financial expenses		**4,862**	8,196
Adjustments for minimum future lease payment uplifts	25	**1,463**	1,560
Onerous lease provision charge		**646**	–
Depreciation	12	**2,680**	2,496
Amortisation	13	**3,584**	887
Share-based payments charge		**178**	270
Acquisition transaction costs		**1,310**	3,562
Post acquisition integration and re-organisation costs		**1,474**	1,099
Plant and equipment items written off		**219**	60
Profit on disposal of freehold property		**(144)**	(350)
Fair value adjustment in respect of prior years acquisitions		**230**	596
Bargain purchase credit		**(821)**	(3,828)
Operating cash flows before movement in working capital		**23,065**	22,088
Decrease in trade and other receivables		**879**	1,511
Decrease in trade and other payables		**(1,559)**	(3,777)
Increase in inventories		**(163)**	(8)
Operating cash flows before non underlying items		**22,222**	19,814
Non underlying items paid	5	**(3,990)**	(2,390)
Cash inflows from operating activities		**18,232**	17,424
Interest received		**32**	23
Tax (paid)/received		**(1,297)**	234
Net cash from operating activities		**16,967**	17,681
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,007**	–
Acquisition of subsidiaries, net of cash acquired	23	**(13,625)**	(32,554)
Acquisition of property, plant and equipment		**(6,365)**	(7,849)
Acquisition of intangible assets		**(50)**	–
Acquisition of software	13	**(342)**	(713)
Net cash used in investing activities		**(19,375)**	(41,116)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)	21	**–**	14,647
Proceeds from new loan (net of costs)		**22,249**	24,992
Interest paid		**(4,794)**	(3,264)
Cash outflow arising from derivative financial instruments		**(2,797)**	(3,025)
Repayment of borrowings		**(5,000)**	(1,200)
Payment of finance lease liabilities		**(1,042)**	(702)
Dividends paid	22	**(2,802)**	(2,326)
Net cash from financing activities		**5,814**	29,122
Net increase in cash and cash equivalents		**3,406**	5,687
Cash and cash equivalents at start of year		**10,008**	4,321
Cash and cash equivalents at 30 September	16	**13,414**	10,008

Net debt in the balance sheet comprises:

	Note	2011 £000	2010 £000 as restated[i]
Cash at bank and in hand	16	**13,414**	10,008
Bank loans	17	**(138,350)**	(120,934)
Finance lease and hire purchase contracts	17	**(2,381)**	(2,321)
Net debt at 30 September		**(127,317)**	(113,247)

(i) See note 4.

Notes

1 Background and basis of preparation

CareTech Holdings PLC (the "Company") is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2011 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 11 January 2012.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Operating Review on pages 6 to 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 14 to 16. 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.

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

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

2 Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

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

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

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

Endorsed		Effective for periods beginning on or after:
IAS 24	Related Party Disclosures (revised 2009) – Makes changes to the related party disclosure requirements for government related entities, and the definition of a related party.	1 January 2011

The Directors anticipate that the above Standard will be adopted in the Group's financial statements for the period commencing 1 October 2011 and that its adoption will have no material impact on the financial statements of the Group.

For the year ended 30 September 2011 the following accounting standards, interpretations and amendments were adopted:

- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- Amendment to IFRS 2 – Group cash-settled share-based payment transactions
- Amendment to IFRS 8 – Operating segments
- Amendment to IAS 17 – Leases
- Amendment to IAS 32 – Classification of Rights Issues

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 30 September 2011, have been adopted in the year.

None of these have had a material impact on the Group's financial statements.

(b) Measurement convention

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

(c) Basis of consolidation

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

(d) 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 income statement 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.

2 Accounting policies (continued)

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

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

- freehold buildings — 2% straight-line;
- long leasehold property — over the life of the lease (to a maximum of 50 years);
- short leasehold property — over the life of the lease;
- fixtures, fittings and equipment — 15% straight line or 25% reducing balance dependent on date of acquisition; and
- motor vehicles — 25% reducing balance.

(e) Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. 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 income statement.

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

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

- Customer relationships — 3–20 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) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value, remeasured at each reporting date. The gain or loss on re-measurement to fair value is recognised immediately in finance income or expense. However, where derivatives are designated as a hedging instrument and qualify for hedge accounting, recognition of any resultant gain or loss depends on whether or not the hedges are assessed as effective.

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

Cash flow hedges

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

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

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

(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 income statement.

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

2 Accounting policies (continued)

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 income statement 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.

(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 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.

(l) Provisions

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

(m) Revenue

Revenue comprises the fair value of fee income receivable for the year in respect of the provision of care and fostering services and is recognised in respect of the day's care that has been provided in the relevant period. 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 invoiced in advance is included in deferred income until service is provided.

Revenue in respect of licensing rights is recognised on commencement of contractual arrangements when fees in respect of these are fixed, non-cancellable and there are no further significant delivery obligations for the Group.

(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.

Financing costs

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

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Interest income also includes gains arising on the change in fair value of hedging instruments in the income statement.

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 hedging instruments that are recognised in the income statement.

2 Accounting policies (continued)

Pre-contract costs

Pre-contract costs include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is considered as the point at which it is probable that the contract has been secured, although contracts are individually reviewed in order to apply the most appropriate treatment. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

(o) Operating leases

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

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

(p) Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 30 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

Accounting for business combinations

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

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

Acquisitions on or after 1 October 2009

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

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

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

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

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

2 Accounting policies (continued)

Acquisitions between 1 October 2006 and 1 October 2009

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

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

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

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

3 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 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 turnover between the operating segments is not material.

During the year the Directors undertook a comprehensive review and re-organisation of the Group's internal management structure following the significant acquisition activity in the second half of the 2010 year end. Internal management and financial reporting has been realigned to assess financial performance using the Group's four operating segments focused on delivering high quality services across a national platform through local relationships. Our 4 segments are, Adult Learning Difficulties ("ALD"), Young People Residential Services ("YPR"), Foster Care and Family Services ("FFS") and Mental Health ("MH"). There has been no aggregation of the operating segments in arriving at these reportable segments.

The segment results for the year ended 30 September 2011, on a restated basis for the year ended 30 September 2010 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial information are as follows:

Year ended 30 September 2011

Continuing operations	ALD	YPR	FFS	MH	Total
Client capacity	**1,413**	**108**	**401**	**134**	**2,056**
Revenue (£000)	**75,738**	**14,158**	**13,045**	**6,209**	**109,150**
EBITDA (£000)	**17,992**	**4,528**	**3,238**	**1,911**	**27,669**

Year ended 30 September 2010

Continuing operations	ALD	YPR	FFS	MH	Total
Client capacity	1,352	100	239	118	1,809
Revenue (£000)	72,225	8,156	5,905	3,411	89,697
EBITDA (£000)	19,892	2,603	1,950	977	25,422

Reconciliation of EBITDA to profit before tax:

	2011 £000	2010 £000
Underlying EBITDA before unallocated costs	**27,669**	25,422
Unallocated costs	**(4,460)**	(2,984)
Underlying EBITDA	**23,209**	22,438
Depreciation	**(2,680)**	(2,496)
Amortisation	**(3,584)**	(887)
Share based payments charge	**(178)**	(270)
Non underlying items	**(4,521)**	(3,049)
Operating profit	**12,246**	15,736
Financial income	**32**	23
Financial expenses	**(4,862)**	(8,196)
Profit before tax	**7,416**	7,563

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 are not measures used by the CODM to assess performance and to make resource allocation decisions.

4 Restatements

Comparative information has been changed for the following:

(i) Acquisition and development related staff costs of £1,993,000 for the year ended 30 September 2010 have been reclassified such that they are charged against administrative expenses before non underlying items in the Consolidated Statement of Comprehensive Income rather than within non underlying items. This has resulted in a change to the disclosed non-statutory EBITDA before non-underlying items as set out below. Consequently the taxation charge before non-underlying items is also restated by £558,000;

(ii) The carrying value of derivative financial instruments of £6,314,000 previously shown within non-current liabilities as at 30 September 2010 has been reclassified into estimated current and non-current amounts of £2,877,000 and £3,437,000 respectively. This analysis between current and non-current liabilities is in accordance with the estimated discounted contractual cash flow maturities of these derivative financial instruments. There is no effect on profit, cash flows or basic and diluted earnings per share from these adjustments;

(iii) At 30 September 2010 the current liability balance for deferred and contingent consideration payable of £14,735,000 included £7,500,000 in respect of a currently exercisable one-way option to acquire freehold property entered into by the Group at the same time as a business combination which was completed during the year ended 30 September 2010. A corresponding property asset had also been recognised, reflecting the cost of the property under the option. During the current year the Directors have reconsidered the nature of the asset acquired as part of the business combination. Since the Group was under no obligation to proceed with the acquisition of the property they have concluded that the asset acquired was in fact the option to make that acquisition, rather than the property itself. The fair value of the option at acquisition was £nil. As a consequence an adjustment has been made to reduce both deferred and contingent consideration and property, plant and equipment by £7,500,000 in the balance sheet as at 30 September 2010. In addition this results in the reclassification of £417,000 of finance charges into Administrative Expenses for the year ended 30 September 2010. The disclosure of the acquisitions in the year ended 30 September 2010 has been restated for this adjustment. The option expired in December 2011. There is no effect on profit before tax, cash flows or basic and diluted earnings per share from these adjustments;

(iv) In the Consolidated Balance Sheet, accruals relating to minimum future lease payments (the difference between operating lease rentals on a cash and straight-line charge basis), previously disclosed within Trade and other payables as current liabilities, have been reclassified in a separate line item as non-current liabilities as they will reverse in periods which are several years in the future. There is no effect on profit, cash flows or basic and diluted earnings per share from these adjustments;

(v) In accordance with IFRS3, revisions have been made during the measurement period to the fair values of the identifiable assets acquired and the liabilities assumed as a result of business combinations undertaken in the year ended 30 September 2010. As a result, additional corporation tax liabilities of £700,000 were recognised, an adjustment to trade and other payables of £47,000 was made and a corresponding reduction in deferred consideration of £653,000 was recognised;

(vi) In the Consolidated Balance Sheet, inventories amounting to £152,000 have been reclassified in a separate line item within current assets; and

(vii) The balance sheet as at 30 September 2009 has been restated for items (ii), (iv) and (vi).

The effect of the above on the financial information is as follows:

		Year ended 30 September 2010		
	Note	Previously stated £000	Adjustment £000	Restated £000
Income statement				
Administrative expenses	(iii)	(21,223)	(417)	(21,640)
Financial expenses	(iii)	(8,613)	417	(8,196)
Profit before tax		7,563	–	7,563
Taxation		(1,042)	–	(1,042)
Profit after tax		6,521	–	6,521
Earnings per share				
Basic		13.63p	–	13.63p
Diluted		13.55p	–	13.55p
Earnings per share before non underlying items				
Basic		30.77p	(3.00p)	27.77p
Diluted		30.57p	(2.98p)	27.59p
Balance sheet				
Property, plant and equipment	(iii)	191,639	(7,500)	184,139
Inventories	(vi)	–	152	152
Trade and other receivables	(vi)	11,434	(152)	11,282
Trade and other payables due within one year	(iv)(v)	(24,821)	11,137	(13,684)
Derivative financial instruments due within one year	(ii)	–	(2,877)	(2,877)
Tax payable	(v)	(2,267)	(700)	(2,967)
Deferred and contingent consideration due within one year	(iii)(v)	(14,735)	8,153	(6,582)
Minimum future lease payments	(iv)	–	(11,090)	(11,090)
Derivative financial instruments due after more than one year	(ii)	(6,314)	2,877	(3,437)
Net assets		70,026	–	70,026

4 Restatements (continued)

Adjustments (i) and (iii) also resulted in a change to the non-statutory EBITDA before non underlying items for year ended 30 September 2010 as follows:

	Year ended 30 September 2010 £000
EBITDA before non underlying items as previously stated	24,848
Acquisition and development related staff costs[i]	(1,993)
Reclassification of finance charges[iii]	(417)
EBITDA before non underlying items as restated	22,438

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. Non underlying items comprise the following:

	Note	2011 £000	2010 £000 As restated[ix]
Acquisition expenses		1,310	3,562
Post acquisition integration and reorganisation cost	(i)	1,693	1,159
Fair value adjustments in respect of prior year acquisitions	(ii)	230	596
Acquisition and development costs		3,233	5,317
Bargain purchase credit (note 23)		(821)	(3,828)
Adjustments for minimum future lease payment uplift to IAS 17 (note 25)	(iii)	1,463	1,560
Onerous lease provision	(iv)	646	–
Included in EBITDA		4,521	3,049
Amortisation of intangible assets (note 13)		3,584	887
Included in administrative expenses		8,105	3,936
Loan finance costs written off on refinancing (note 8b)	(v)	–	1,675
Revaluation movements relating to derivative financial instruments	(vi)	(2,447)	139
Charges relating to derivative financial instruments (note 8b)	(vi)	2,797	3,089
Included in financial expenses		350	4,903
Tax on non underlying items (note 9):			
Current tax	(vii)	(1,387)	(2,215)
Deferred tax	(viii)	(283)	136
Included in taxation		(1,670)	(2,079)
Total non underlying items		6,785	6,760

(i) The Group incurred a number of costs relating to the integration of recent acquisitions and reorganisation of the internal operating and management structure. This comprises £760,000 of costs associated with restructuring the Adult Learning Difficulties Division, £714,000 of costs associated with the integration of acquisitions and the associated restructuring of the finance and support functions and a charge of £219,000 in respect of items of plant and equipment written off in the year. Included in the cash flow statement are acquisition expenses of £2,702,000 (2010: £1,231,000) and post acquisition integration and reorganisation costs of £1,288,000 (2010: £1,159,000), which were paid in the year.
(ii) In accordance with IFRS 3 (as revised) adjustments to the fair value of acquisitions completed in previous financial years are recognised in the income statement. These adjustments relate to final completion account agreements with vendors.
(iii) Adjustments relate to non-cash additional charges under IAS 17 which incorporates recognising the effect of minimum future lease payment uplifts on a straight-line basis.
(iv) The present value of the future cash flows receivable from the operation of a leased asset 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 £646,000 being the present value of any onerous element of the remaining lease life.
(v) In April 2010, the Group completed a new banking facility agreement. As such the unamortised element of loan fee costs on the replaced debt was fully written off.
(vi) 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 settlements, and accrual thereof.
(vii) Represents the current tax on items (i), (ii), (iii), (iv) and (v) above.
(viii) A deferred tax charge of £803,000 (2010: £148,000 credit) arises in respect of a charge relating to derivative financial instruments in (vii) above. In addition, a credit of £775,000 (2010: £1,251,000) arises in respect of changes in future corporation tax rates, together with a credit from the effects of full provision for deferred tax under IAS 12 amounting to £311,000 (2010: £1,535,000 charge).
(ix) See note 4.

6 Auditor's remuneration

	2011 £000	2010 £000
Audit of these financial statements	**55**	55
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**230**	208
Other services relating to taxation	**–**	78
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	**–**	5
All other services	**12**	44

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	
	2011	2010
Residential care staff	**3,154**	2,639
Maintenance	**17**	26
Management and administration	**213**	203
	3,384	2,868

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	**52,749**	43,124
Share-based payments charge	**178**	270
Social security costs	**3,891**	3,556
Other pension costs	**113**	114
	56,931	47,064

8 Financial income and expenses

	2011 £000	2010 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss:		
On bank deposits	**32**	23
	32	23
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	**4,280**	3,093
Finance charges in respect of finance leases	**232**	200
Financial expenses before non underlying items	**4,512**	3,293
Derivative financial instruments (note 5)	**350**	3,228
Loan finance costs written off on refinancing (note 5)	**–**	1,675
	4,862	8,196

In accordance with the revision to IAS 23, borrowing costs at £580,000 (2010: £360,000) have been capitalised in the year. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

9 Taxation

(a) Recognised in the income statement

	2011 £000	2010 £000 As restated
Current tax expense		
Current year	**3,502**	3,657
Current tax on non underlying items (note 5)	**(1,387)**	(2,215)
Total current tax	**2,115**	1,442
Deferred tax expense		
Current year	**(539)**	999
Effect of changes in future tax rate	**(775)**	(1,251)
Deferred tax on non underlying items (note 5)	**803**	(148)
Total deferred tax	**(511)**	(400)
Total tax in income statement	**1,604**	1,042

(b) Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit before tax for the year	**7,416**	7,563
Tax using the UK corporation tax rate of 27% (2010: 28%)	**2,002**	2,118
Non-deductible expenses	**1,364**	482
Effect of changes in future tax rate	**(775)**	(357)
Deferred tax adjustments in respect of prior years	**–**	(538)
Other deferred tax adjustments	**(987)**	(356)
Utilisation of tax losses	**–**	(307)
Total tax in income statement	**1,604**	1,042

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 30 September 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

10 Earnings per share

	2011 £000	2010 £000
Profit attributable to ordinary shareholders	**5,812**	6,521
Weighted number of shares in issue for basic earnings per share	**49,586,656**	47,829,070
Effects of share options in issue	**106,227**	307,898
Weighted number of shares for diluted earnings per share	**49,692,883**	48,136,968

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	**11.72p**	13.63p
Diluted	**11.70p**	13.55p

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 impact the trading performance of the Group.

	2011 £000	2010 £000 as restated
Profit attributable to ordinary shareholders	**5,812**	6,521
Non underlying items (note 5)	**6,785**	6,760
Underlying profit attributable to ordinary shareholders	**12,597**	13,281
Underlying earnings per share (pence per share)		
Basic	**25.40p**	27.77p
Diluted	**25.35p**	27.59p

12 Property, plant and equipment

	Land and buildings as restated £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2009	154,967	3,427	8,713	167,107
Acquisitions through business combinations	20,285	99	833	21,217
Other acquisitions	1,924	866	2,410	5,200
Disposals	(57)	–	(71)	(128)
At 30 September 2010	177,119	4,392	11,885	193,396
At 1 October 2010	177,119	4,392	11,885	193,396
Acquisitions through business combinations	1,751	56	163	1,970
Transfers (note 13)	(1,356)	–	–	(1,356)
Other acquisitions	4,602	1,057	3,092	8,751
Disposals	(1,103)	(865)	(12)	(1,980)
At 30 September 2011	**181,013**	**4,640**	**15,128**	**200,781**
Depreciation and impairment				
At 1 October 2009	1,860	1,239	3,678	6,777
Depreciation charge for the year	604	541	1,351	2,496
Disposals	(5)	–	(11)	(16)
At 30 September 2010	2,459	1,780	5,018	9,257
At 1 October 2010	2,459	1,780	5,018	9,257
Depreciation charge for the year	439	624	1,617	2,680
Disposals	(21)	(636)	(3)	(660)
At 30 September 2011	2,877	1,768	6,632	11,277
Net book value				
At 1 October 2009	153,107	2,188	5,035	160,330
At 30 September 2010	174,660	2,612	6,867	184,139
At 30 September 2011	**178,136**	**2,872**	**8,496**	**189,504**

Included in the result for the year is a profit of £144,000 (2010: £350,000 profit) on the disposal of freehold property and a charge of £219,000 (2010: £60,000) relating to items of plant and equipment written off in the year.

Land and buildings

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

	2011 £000	2010 £000 as restated
Freehold	**171,443**	167,814
Long leasehold improvements	**4,644**	4,750
Short leasehold improvements	**2,049**	2,096
	178,136	174,660

Security

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
Cost				
At 1 October 2009	15,954	947	2,306	19,207
Acquisitions through business combinations	10,205	–	23,932	34,137
Other acquisitions	–	713	558	1,271
At 30 September 2010	26,159	1,660	26,796	54,615
At 1 October 2010	26,159	1,660	26,796	54,615
Acquisitions through business combinations	3,900	–	11,341	15,241
Transfers	–	–	1,356	1,356
Other acquisitions	–	342	93	435
At 30 September 2011	**30,059**	**2,002**	**39,586**	**71,647**
Amortisation and impairment				
At 1 October 2009	–	402	232	634
Amortisation for the year	–	190	697	887
At 30 September 2010	–	592	929	1,521
At 1 October 2010	–	592	929	1,521
Amortisation for the year	–	498	3,086	3,584
At 30 September 2011	**–**	**1,090**	**4,015**	**5,105**
Net book value				
At 1 October 2009	15,954	545	2,074	18,573
At 30 September 2010	26,159	1,068	25,867	53,094
At 30 September 2011	**30,059**	**912**	**35,571**	**66,542**

Amortisation

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

	2011 £000	2010 £000
Administrative expenses	**3,584**	887

Impairment testing for cash-generating units containing goodwill 2011

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:

	2011
Period over which management approved forecasts are based	**1 year**
Growth rate applied beyond approved forecast period	**0%**
Pre-tax discount rate	
Adult Learning Difficulties division	**8%**
Foster Care and Family Services division	**12%**
Young People Residential Services division	**8%**
Mental Health division	**10%**

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.

13 Intangible assets (continued)

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

	2011 £000
Adult Learning Difficulties division	**17,857**
Foster Care and Family Services division	**6,983**
Young Peoples Residential Services division	**4,079**
Mental Health division	**1,140**
	30,059

During the year the Group elected to sell the freehold title to a number of properties used in the provision of care. As part of the arrangements for service users' continuing care, the Group retained the contracts for the provision of care services. As such the Group has accounted for the disposal of freehold land and buildings and a transfer of the fair value of the customer relationship associated with these contracts to intangible assets. There is no effect on comparative profit, cash flows, basic and diluted earnings per share or previous balance sheets.

Impairment testing for cash-generating units containing goodwill 2010

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

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

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

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

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

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

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

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

14 Group undertakings

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

	Country of incorporation	Class of shares held	Ownership 2011 %	Ownership 2010 %
CareTech Community Services Limited	England and Wales	Ordinary	**100**	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	**100[a]**	100[a]
Care Support Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Delam Care Limited	England and Wales	Ordinary	**100[a]**	100[a]
Sunnyside Care Homes Limited	England and Wales	Ordinary	**100[a]**	100[a]
Lonsdale Midlands Limited	England and Wales	Ordinary	**100[a]**	100[a]
Daisybrook Limited	England and Wales	Ordinary	**100[a]**	100[a]
CareTech Estates Limited	England and Wales	Ordinary	**100**	100
Community Support Project Limited	England and Wales	Ordinary	**100**	100
One Step (Support) Limited	England and Wales	Ordinary	**100[b]**	100[b]
Counticare Limited	England and Wales	Ordinary	**100[a]**	100[a]
H20 Limited	Gibraltar	Ordinary	**100[a]**	100[a]
Hazeldene Limited[1]	Gibraltar	Ordinary	**100[e]**	100[e]
One Six One Limited	England and Wales	Ordinary	**100[a]**	100[a]
Barleycare Limited	England and Wales	Ordinary	**100[a]**	100[a]
Valeo Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 5) Limited	England and Wales	Ordinary	**100**	100
Beacon Care Holdings Limited	England and Wales	Ordinary	**100**	100
Beacon Care Investments Limited	England and Wales	Ordinary	**100**	100
Ashcroft House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Ashring House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Ashview House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Beacon Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Beech Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Bright Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Emeraldpoint Limited	England and Wales	Ordinary	**100[c]**	100[c]
Glenroyd House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Kirkstall Lodge Limited	England and Wales	Ordinary	**100[c]**	100[c]
Leigham Lodge Limited	England and Wales	Ordinary	**100[c]**	100[c]
Palm Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Vosse Court Limited	England and Wales	Ordinary	**100[c]**	100[c]
Wyatt House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Addington House Limited	England and Wales	Ordinary	**100[d]**	100[d]
Magnolia Court Limited	England and Wales	Ordinary	**100[d]**	100[d]
Victoria Lodge Limited	England and Wales	Ordinary	**100[d]**	100[d]
Hereson House Limited	England and Wales	Ordinary	**100[a]**	100[a]
Huntsmans Lodge Limited	England and Wales	Ordinary	**100[a]**	100[a]
White Cliffs Lodge Limited	England and Wales	Ordinary	**100[a]**	100[a]
Rosedale Children's Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Roborough House Limited	England and Wales	Ordinary	**100[a]**	100[a]
Franklin Homes Limited	England and Wales	Ordinary	**100[a]**	100[a]
Family Assessment Services (Birmingham) Limited	England and Wales	Ordinary	**100**	100
Greenfields Care Group Limited	England and Wales	Ordinary	**100[a]**	100[a]
Greenfields Adolescent Development Limited	England and Wales	Ordinary	**100[f]**	100[f]
St Michael's Support & Care Limited	England and Wales	Ordinary	**100[a]**	100[a]
St Michael's Support & Care Properties Limited	England and Wales	Ordinary	**100[a]**	100[a]
Outlook Fostering Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Prestwood Residential Homes Limited	England and Wales	Ordinary	**100[a]**	100[a]
Park Foster Care Limited	England and Wales	Ordinary	**100[a]**	100[a]
Branas Isaf (Holdings) Limited	England and Wales	Ordinary	**100[a]**	100[a]
Branas Isaf Personal Development Centre Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Bythnod & Hendre Llywd) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Dewis Cyferod & Cysgod Cyfarfod) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Llyn Coed) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Ashfield House) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Education Centre) Limited	England and Wales	Ordinary	**100[g]**	100[g]
Mason Property Development Company Limited	England and Wales	Ordinary	**100[g]**	100[g]

14 Group undertakings (continued)

	Country of incorporation	Class of shares held	Ownership 2011 %	2010 %
Coveberry Limited	England and Wales	Ordinary	**100[a]**	100[a]
Uplands (Fareham) Limited	England and Wales	Ordinary	**100[i]**	100[i]
CareTech Foster Care Limited	England and Wales	Ordinary	**100[j]**	–
Fostering Support Group Limited	England and Wales	Ordinary	**100[k]**	–
Phoenix Therapy and Care Limited	England and Wales	Ordinary	**100[a]**	–
Cameron Care Limited	Scotland	Ordinary	**100[a]**	–
Selwyn Care Limited	England and Wales	Ordinary	**100[a]**	–
Professional Integrated Care Services Limited	England and Wales	Ordinary	**100[a]**	–
TLC (Wales) Limited	England and Wales	Ordinary	**100[l]**	–
Complete Care and Enablement Service Limited	England and Wales	Ordinary	**100[a]**	–

1 Has a UK designated trading branch, Hazeldene UK Limited.
a A subsidiary of CareTech Community Service Limited.
b A subsidiary of Community Support Project Limited.
c A subsidiary of Beacon Care Holdings Limited.
d A subsidiary of Beacon Care Investments Limited.
e A subsidiary of H20 Limited.
f A subsidiary of Greenfields Care Group Limited.
g A subsidiary of Branas Isaf (Holdings) Limited.
h A subsidiary of Branas 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.

15 Trade and other receivables

	2011 £000	2010 £000
Trade receivables (note 24)	**5,696**	6,929
Other debtors and prepayments	**4,370**	4,353
	10,066	11,282

16 Cash and cash equivalents

	2011 £000	2010 £000
Cash and cash equivalents per balance sheet	**13,414**	10,008
Cash and cash equivalents per cash flow statement	**13,414**	10,008

17 Other interest-bearing loans and borrowings

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

	2011 £000	2010 £000
Non-current liabilities		
Secured bank loans	**131,850**	115,934
Finance lease liabilities	**1,421**	1,455
	133,271	117,389
Current liabilities		
Current portion of secured bank loans	**6,500**	5,000
Current portion of finance lease liabilities	**960**	866
	7,460	5,866

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2011 £000	Book value 2010 £000
Term loan	£	1.75 (2010:1.75)[1]	2013	**79,776**	84,611
Revolving credit facility term loan	£	2.25 (2010:2.25)[1]	2013	**58,574**	36,323
				138,350	120,934

1 Margin over LIBOR.

17 Other interest-bearing loans and borrowings (continued)

At 30 September 2011 the Group has available bank facilities totalling £160m, sufficient, with cash flow from profits, to fund present commitments. Term facilities are used to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources.

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than 1 year	**1,109**	**149**	**960**	1,035	169	866
Between 1 and 5 years	**1,588**	**167**	**1,421**	1,685	230	1,455
	2,697	**316**	**2,381**	2,720	399	2,321

18 Trade and other payables

	2011 £000	2010 £000 as restated
Trade payables	**2,386**	3,271
Accrued expenses	**9,305**	10,413
	11,691	13,684

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2011		2010	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	**–**	**5,014**	–	4,692
Intangible assets	**–**	**15,455**	–	13,712
Derivative financial instruments	**(1,005)**	**–**	(1,878)	–
Share-based payments	**(415)**	**–**	(381)	–
Rolled-over gains on property, plant and equipment	**–**	**4,584**	–	4,760
Tax (assets)/liabilities	**(1,420)**	**25,053**	(2,259)	23,164
Net of tax liabilities/(assets)		**(1,420)**		(2,259)
Net deferred tax liabilities		**23,633**		20,905

Movement in deferred tax during the year

	1 October 2010 £000	Recognised in income £000	Acquired in business combination £000	30 September 2011 £000
Property, plant and equipment	4,692	322	–	**5,014**
Intangible assets	13,712	(1,496)	3,239	**15,455**
Rolled-over gains	4,760	(176)	–	**4,584**
Derivative financial instruments	(1,878)	873	–	**(1,005)**
Share-based payments	(381)	(34)	–	**(415)**
	20,905	(511)	3,239	**23,633**

Movement in deferred tax during the previous year

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

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 £113,000 (2010: £114,000) of which £nil (2010: £nil) was outstanding at the year end.

Share-based payments

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

Options granted under the above schemes, together with those remaining at 30 September 2011 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2011	Options exercised to 30 Sept 2011	Options remaining 30 Sept 2011	Option price (pence)
13 October 2005[1]	Approved Scheme	627,375	(299,836)	(221,707)	**105,832**	169
7 November 2005[1]	SAYE Scheme	186,033	(43,519)	(142,514)	**–**	136
2 August 2006[1]	Approved Scheme	52,427	(43,764)	(3,424)	**5,239**	292
2 August 2006[1]	Unapproved Scheme	8,220	(8,220)	–	**–**	292
17 January 2007[1]	Approved Scheme	162,885	(103,358)	(23,236)	**36,291**	345
17 January 2007[1]	Unapproved Scheme	18,263	(8,686)	(5,785)	**3,792**	345
21 March 2007[1]	Approved Scheme	6,077	–	–	**6,077**	452
1 February 2008[1]	SAYE Scheme	101,397	(77,576)	–	**23,821**	440
2 May 2008[1]	Approved Scheme	114,070	(63,479)	(138)	**50,453**	410
2 May 2008[1]	Unapproved Scheme	23,843	(14,970)	–	**8,873**	410
14 April 2009[2]	Unapproved Scheme	92,308	(46,154)	–	**46,154**	0.5
4 August 2009	Approved Scheme	191,121	(60,070)	–	**131,051**	332.5
4 August 2009	Unapproved Scheme	165,050	(67,983)	–	**97,067**	332.5
12 August 2009	SAYE Scheme	202,069	(99,461)	(1,183)	**101,425**	254
3 August 2010	Approved Scheme	283,754	(48,248)	–	**235,506**	305
3 August 2010	Unapproved Scheme	210,653	(82,349)	–	**128,304**	305
3 August 2010[2]	Unapproved Scheme	92,308	(46,154)	–	**46,154**	0.5
15 November 2010	Approved Scheme	8,108	–	–	**8,108**	370
15 November 2010	Unapproved Scheme	18,243	–	–	**18,243**	370

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

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

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

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	**671,028**	**2.99**	513,606	2.93
Granted during year	**8,108**	**3.70**	283,754	3.05
Lapsed during year	**(100,329)**	**(2.98)**	(60,237)	(3.53)
Exercised during year	**(250)**	**(1.69)**	(66,095)	(2.31)
Outstanding at end of year	**578,557**	**3.00**	671,028	2.99
Outstanding and exercisable at end of year	**203,892**	**2.72**	172,491	2.21

The options outstanding at 30 September 2011 were exercisable at prices between 169p and 452p. The weighted average remaining contractual life of those options yet to vest is 1.5 years.

20 Employee benefits (continued)

During the year ended 30 September 2011, options were granted on 15 November 2010. The aggregate of the estimated fair values of the options granted on this date is £6,649.

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

	2011	2010
Weighted average share price	£2.10	£3.84
Weighted average exercise price	£3.00	£2.99
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%–5%	3%–5%
Dividend yield	1.1%	1.1%

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

The CareTech Holdings 2005 Unapproved Share Option Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	552,639	2.13	290,612	2.32
Granted during year	18,243	3.70	302,961	2.12
Lapsed during year	(222,295)	(1.85)	(35,149)	(3.50)
Exercised during year	–	–	(5,785)	(3.45)
Outstanding at end of year	348,587	2.19	552,639	2.13
Outstanding and exercisable at end of year	12,665	2.39	4,904	3.45

The options outstanding at 30 September 2011 were exercisable at prices between 0.5p and 410p. The weighted average remaining contractual life of those options yet to vest is 1.4 years.

During the year ended 30 September 2011, options were granted on 15 November 2010. The aggregate of the estimated fair values of the options granted is £14,959.

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

	2011	2010
Weighted average share price	£2.10	£3.84
Weighted average exercise price	£2.39	£2.13
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%–5%	3%–5%
Dividend yield	1.1%	1.1%

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

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

20 Employee benefits (continued)

The CareTech Holdings 2005 Save As You Earn Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	**186,277**	**2.84**	252,429	2.83
Granted during year	**–**	**–**	–	–
Lapsed during year	**(59,848)**	**(2.74)**	(59,277)	(2.95)
Exercised during year	**(1,183)**	**(2.54)**	(6,875)	(1.36)
Outstanding at end of year	**125,246**	**2.89**	186,277	2.84
Outstanding and exercisable at end of year	**23,821**	**4.40**	–	–

The options outstanding at 30 September 2011 were exercisable at prices between 136p and 440p. The weighted average remaining contractual life of those options yet to vest is 0.9 years.

During the year ended 30 September 2011, no options were granted.

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

	2011	2010
Weighted average share price	**£2.10**	£3.84
Weighted average exercise price	**£2.89**	£2.84
Expected volatility	**30%**	30%
Expected life in years	**3**	3
Risk free rate	**3%–5%**	3%–5%
Dividend yield	**1.1%**	1.1%

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

21 Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid:		
49,586,905 (2010: 49,585,472) ordinary shares of 0.5p each	**248**	248
53,402 deferred shares of 0.5p each	**–**	–
	248	248

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:

2011	At 1 October 2010	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2011
Ordinary shares of 0.5p each	49,585,472	–	1,433	–	**49,586,905**
Deferred shares of 0.5p each	53,402	–	–	–	**53,402**

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

21 Share capital (continued)

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

On 15 March 2010, the Company raised £15m before expenses of £353,000 through the placing of 3,750,000 ordinary shares of 0.5p each at 400p per share.

Reserves

Share premium – During the year £nil (2010: £353,000) of transaction costs associated with the issue of new shares has been charged to the share premium account.

Merger reserve – The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company. The movement in the year ended 30 September 2010 arises in respect of shares issued in the year as final consideration for the acquisition at Beacon Care Holdings Limited and Beacon Care Investments 2008, net of costs of £3,461,125.

22 Dividends

The aggregate amount of dividends comprises:

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,815**	1,416
Interim dividends paid in respect of the current year	**987**	910
Aggregate amount of dividends paid in the financial year	**2,802**	2,326

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.00p per share, £1,983,476 (2010: 3.66p per share, £1,814,828).

23 Acquisitions

(a) Acquisitions 2011

Each of the six acquisitions in the year have been accounted for as a business combinations under IFRS 3 (revised). In view of the overall volume of acquisitions in the financial year and the similarity of each, in the Directors' judgement it is appropriate to present the acquisitions information in aggregate.

The following provisional fair value table summarises the various acquisitions made during the financial year pending finalisation of completion accounts:

	Book values £000	Fair value Adjustment £000	Fair value £000
Intangible fixed assets (note 13)	–	11,341	11,341
Property, plant and equipment (note 12)	409	1,561	1,970
Trade and other receivables	1,484	(522)	962
Cash	269	–	269
Trade and other payables	(97)	–	(97)
Corporation tax	(369)	–	(369)
Accruals and other creditors	(578)	(350)	(928)
Deferred tax	(8)	(3,231)	(3,239)
			9,909
Satisfied by:			
Cash paid			10,898
Deferred consideration			1,590
Contingent consideration			500
Gain on bargain purchase (note 5)			821
			13,809
Goodwill recognised on acquisition			3,900

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 trade and other receivables represents the gross contractual amounts receivable and the fair value adjustment has been made to reflect the best estimate of the amounts not expected to be collected. The fair value adjustments made to intangible assets, property, plant and equipment, trade and other receivables and trade and other payables are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property, plant and equipment. These acquisitions contributed revenue of £6,968,000 and underlying EBITDA of £1,368,000 to the Group's result for the year ended 30 September 2011.

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.

23 Acquisitions (continued)

The gain on bargain purchase is recognised within administrative expenses in the consolidated statement of comprehensive income. It represents the excess of assets and liabilities acquired (at fair value) compared to the fair value of consideration.

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

The following table summarises the acquisitions in the year:

Name	Date of acquisition	% of equity acquired
CareTech Foster Care Limited together with Fostering Support Group Limited	13 December 2010	100
Phoenix Therapy and Care Limited	13 December 2010	100
Cameron Care Limited	21 February 2011	100
Selwyn Care Limited	4 March 2011	100
Professional Integrated Care Services Limited together with TLC (Wales) Limited	27 May 2011	100
Complete Care and Enablement Service Limited	13 July 2011	100

(b) Acquisitions 2010

Each of the 10 acquisitions in the previous financial year has been accounted for as a business combination under IFRS 3 (revised). In view of the overall volume of acquisitions in the financial year and the similarity of each, in the Directors' judgement it is appropriate to present the acquisitions information in aggregate.

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

	Book values £000	Fair value adjustment £000	Fair value £000
Intangible assets (note 13)	–	23,932	23,932
Property, plant and equipment (note 12)	15,208	6,009	21,217
Trade and other receivables	3,200	(225)	2,975
Cash	4,350	–	4,350
Trade and other payables	(249)	–	(249)
Corporation tax	(1,757)	–	(1,757)
Accruals and other creditors	(3,270)	(944)	(4,214)
Deferred tax	(39)	(8,556)	(8,595)
			37,659
Satisfied by:			
Cash paid			36,904
Deferred consideration			1,134
Contingent consideration			5,998
Gain on bargain purchase (note 5)			3,828
			47,864
Goodwill recognised on acquisition			10,205

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 trade and other receivables represents the gross contractual amounts receivable and the fair value adjustment has been made to reflect the best estimate of the amounts not expected to be collected. The fair value adjustments made to intangible assets, property, plant and equipment, trade and other receivables and trade and other payables are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property, plant and equipment. These acquisitions contributed revenue of £6,089,000 and underlying EBITDA of £1,869,000 to the Group's result for the year ended 30 September 2010.

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.

The gain on bargain purchase is recognised within administrative expenses in the consolidated statement of comprehensive income. It represents the excess of assets and liabilities acquired (at fair value) compared to the fair value of consideration.

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

23 Acquisitions (continued)

The following summarises the acquisitions in the year:

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

(c) Reconciliation to Group Cash Flow

	2011 £000	2010 £000
Cash consideration paid on acquisitions in the year	**10,898**	36,904
Cash consideration paid on previous year's acquisitions	**2,996**	–
Net cash acquired	**(269)**	(4,350)
	13,625	32,554

Deferred and contingent consideration payable

	2011 £000	2010 £000 restated
Deferred consideration:		
Due within one year	**4,645**	584
Due in more than one year	**–**	600
Contingent consideration:		
Due within one year	**1,951**	5,998
Due in more than one year	**–**	–
	6,596	7,182

Contingent consideration is payable dependent upon various factors which are to be determined in future financial periods. Post acquisition earnings form the basis for determining the amount of payments. The range of outcomes is estimated to be between £nil and £2,715,000.

(d) Proforma results

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

	2011 £000	2010 £000
Revenue	**115,453**	111,302
Operating profit	**21,433**	20,039

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 income statement for bad or doubtful debts of £150,000 (2010: £nil).

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

24 Financial instruments (continued)

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

	2011 £000	2010 £000
Not due	**4,947**	5,482
Not more than 3 months past due	**749**	1,447
More than 3 months but not more than 6 months past due	**–**	–
More than 6 months past due	**–**	–
Trade receivables (note 15)	**5,696**	6,929

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

	£000
At 1 October 2009	1,700
Arising on acquisitions	200
Utilised in year	(1,033)
At 1 October 2010	867
Arising on acquisitions	200
Utilised in year	(410)
Charged to the consolidated statement of comprehensive income	150
At 30 September 2011	**807**

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

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.

	2011					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1–5 years £000	5 years and over £000
Trade and other payables	**–**	**(11,691)**	**(11,691)**	**(11,691)**	**–**	**–**
Secured bank loans	**5%**	**(138,350)**	**(149,552)**	**(14,087)**	**(135,465)**	**–**
Finance lease liabilities	**11%**	**(2,381)**	**(2,697)**	**(1,109)**	**(1,588)**	**–**
Deferred and contingent consideration	**–**	**(6,596)**	**(6,596)**	**(6,596)**	**–**	**–**
Derivative financial instruments	**–**	**(3,866)**	**(3,866)**	**(2,921)**	**(945)**	**–**
		(162,884)	**(174,402)**	**(36,404)**	**(137,998)**	**–**

	2010					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1–5 years £000	5 years and over £000
Trade and other payables	–	(13,684)	(13,684)	(13,684)	–	–
Secured bank loans	5%	(120,934)	(145,816)	(11,632)	(134,184)	–
Finance lease liabilities	11%	(2,321)	(2,720)	(1,035)	(1,685)	–
Deferred and contingent consideration	–	(7,182)	(7,182)	(6,582)	(600)	–
Derivative financial instruments	–	(6,314)	(6,314)	(2,877)	(3,437)	–
		(150,435)	(175,716)	(35,810)	(139,906)	–

24 Financial instruments (continued)

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:

	2011 £000	2010 £000
Net debt	**127,317**	113,247
Equity	**73,214**	70,026

Our policy had been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share but the Board has taken the view that this policy should be reconsidered for 2011. The final dividend will therefore increase to 4.00p 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 2011, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax by approximately £484,000 (2010: £309,000). 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 2011 £000	Fair value 2011 £000	Carrying amount 2010 £000	Fair value 2010 £000
Loans and receivables:				
Cash at bank and in hand (note 16)	**13,414**	**13,414**	10,008	10,008
Trade receivables (note 15)	**5,696**	**5,696**	6,929	6,929
Amortised cost:				
Trade payables (note 18)	**(2,386)**	**(2,386)**	(3,271)	(3,271)
Secured bank loans (note 17)	**(138,350)**	**(138,350)**	(120,934)	(120,934)
Finance lease liabilities (note 17)	**(2,381)**	**(2,381)**	(2,321)	(2,321)
Held at fair value:				
Derivative financial instruments	**(3,866)**	**(3,866)**	(6,314)	(6,314)

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

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

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: £3,866,000 (2010: £6,314,000).
- 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: £Nil (2010:Nil).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: £Nil (2010:Nil).

25 Operating leases

Non-cancellable operating lease rental are payable as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	**6,882**	**184**	5,982	146
Between 1 and 5 years	**22,813**	**149**	19,920	244
More than 5 years	**159,460**	**1**	157,053	–
	189,155	**334**	182,955	390

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

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

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

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	**6,806**	**192**	5,289	99
Adjustment for minimum future lease payment uplifts (note 5)	**1,463**	**–**	1,560	–
Onerous lease provision (note 5)	**646**	**–**	–	–
Total recognised in the consolidated statement of comprehensive income	**8,915**	**192**	6,849	99

Analysis of movement in onerous lease provision:

	£000
At 1 October 2010	–
Recognised in the consolidated statement of comprehensive income (note 5)	646
At 30 September 2011	**646**

26 Related parties

During the year, CareTech Community Services Limited paid rent totalling £106,991 (2010: £72,348) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £nil was outstanding.

As part of his appointment as a Director of the Group, Michael Hill disposed of his 100% interest in a Company in which there was a pre-existing franchise agreement with the Group.

Transactions with key management personnel

	2011 £000	2010 £000
Salary	**1,883**	1,136
Benefits	**191**	186
Bonus	**279**	204
Total short-term remuneration	**2,353**	1,526
Post employment benefits	**40**	41
Share based payments	**16**	56
Fees	**315**	152
	2,724	1,775

Key management personnel are defined as Directors of the Company and members of the Executive Committee.

Directors' emoluments are set out on page 23.

27 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 2011 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.

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.

Deferred taxation

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

Contingent consideration

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

Company Statement of Changes in Equity

as at 30 September 2011

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2009	225	38,852	5,037	5,560	49,674
Total comprehensive income	–	–	–	2,086	2,086
Dividends	–	–	–	(2,326)	(2,326)
Equity settled share-based payments charge	–	–	–	270	270
Share issue proceeds	23	14,663	3,461	–	18,147
At 30 September 2010	248	53,515	8,498	5,590	67,851
At 1 October 2010	248	53,515	8,498	5,590	67,851
Total comprehensive income				3,211	3,211
Dividends	–	–	–	(2,802)	(2,802)
Equity settled share-based payments charge	–	–	–	173	173
At 30 September 2011	**248**	**53,515**	**8,498**	**6,172**	**68,433**

Company Balance Sheet

at 30 September 2011

	Note	2011 £000	2010 £000
Non-current assets			
Investments	30	**35,119**	34,946
Current assets			
Trade and other receivables	31	**34,753**	34,410
Cash and cash equivalents		**105**	477
		34,858	34,887
Total assets		**69,977**	69,833
Current liabilities			
Trade and other payables	32	**261**	332
Deferred consideration		**1,283**	1,650
Total liabilities		**1,544**	1,982
Net assets		**68,433**	67,851
Equity			
Share capital	33	**248**	248
Share premium		**53,515**	53,515
Merger reserve		**8,498**	8,498
Retained earnings		**6,172**	5,590
Total equity attributable to equity shareholders of the parent		**68,433**	67,851

These financial statements were approved by the Board of Directors on 11 January 2012 and were signed on its behalf by:

F. Sheikh
Chairman

M. G. Hill
Finance Director

Company number: 4457287

Company Cash Flow Statement

for the year ended 30 September 2011

	2011 £000	2010 £000
Cash flows from operating activities, being operating cash flows before movement in working capital	**3,211**	2,086
Movement in creditors	**(71)**	126
Movement in intercompany balance	**(343)**	(13,350)
Net cash from operating activities	**2,797**	(11,138)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(367)**	(893)
Cash flows from financing activities		
Dividends paid	**(2,802)**	(2,326)
Proceeds from the issue of new shares (net of costs)	**–**	14,647
Net cash used in financing activities	**(2,802)**	12,321
Net (decrease)/increase in cash and cash equivalents	**(372)**	290
Cash and cash equivalents at start of year	**477**	187
Cash and cash equivalents at 30 September	**105**	477

Company Notes

28 Accounting policies

(a) Basis of preparation

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income.

(b) Taxation

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

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

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

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

(c) Revenue

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

(d) Share-based payments

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

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

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

(e) Dividends on shares presented within shareholders' funds

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

(f) Cash and liquid resources

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

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

(g) Investments

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

29 Dividends

The aggregate amount of dividends comprises:

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,815**	1,416
Interim dividends paid in respect of the current year	**987**	910
Aggregate amount of dividends paid in the financial year	**2,802**	2,326

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.00p per share, £1,983,476 (2010: 3.66p per share, £1,814,828).

30 Investments

	Shares in group undertakings £000
Cost and net book value	
At beginning of year	**34,946**
Share-based payments charge in respect of subsidiary undertakings	**173**
At end of year	**35,119**

31 Trade and other receivables

	2011 £000	2010 £000
Amounts owed by Group undertakings	**34,753**	34,410
	34,753	34,410

32 Trade and other payables

	2011 £000	2010 £000
Other creditors	**261**	332
	261	332

33 Called up share capital

	2011 £000	2010 £000
Allotted, called up and fully paid:		
49,586,905 (2010: 49,585,472) ordinary shares of 0.5p each	**248**	248
53,402 deferred shares of 0.5p each	**–**	–
	248	248

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 (2010: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2010: £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).

Company Notes
continued

35 Directors' remuneration
The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 22 and 23. This analysis forms part of these financial statements.

36 Staff numbers and costs
The Company has no employees (2010: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

37 Related parties
During the year the Company received dividends of £3,850,000 (2010: £2,000,000) and fees of £70,000 (2010: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £34,753,000 (2010: £34,410,000).

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
Financial instruments which potentially expose the Group to credit risk consist primarily of trade receivables.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis.

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 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 (2010: £nil).

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivable not past due.

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

	2011 £000	2010 £000
Not due	**34,753**	34,410
Not more than 3 months past due	–	–
More than 3 months but not more than 6 months past due	–	–
More than 6 months past due	–	–
Trade receivables (note 31)	**34,753**	34,410

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

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Haroon Sheikh	(Chief Executive Officer)
Michael Hill	(Group Finance Director)
Stewart Wallace	(Strategic Director)
Karl Monaghan	(Non-Executive Director)
Christa Echtle	(Non-Executive Director)
Mike Adams	(Non-Executive Director)

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