CareTech

People with learning difficulties living ordinary lives

CareTech Holdings PLC
Annual Report and Accounts 2006

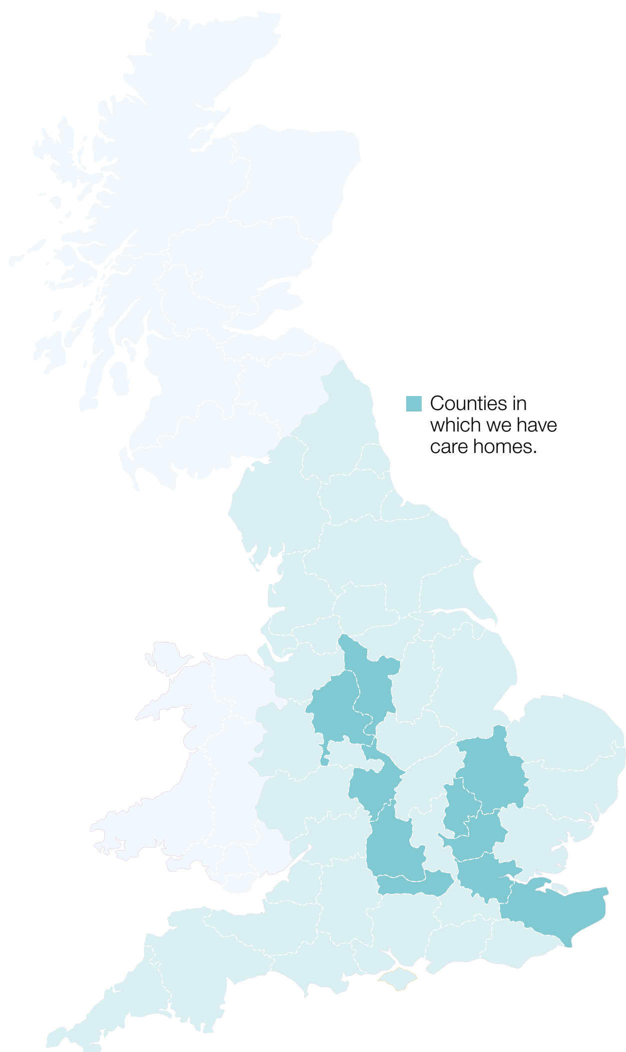
CareTech is a leading provider of specialist residential care and support for people with learning disabilities.

CareTech provides high quality housing and support services to 739 people in 115 homes, with a range of learning and physical disabilities. The Company also has 4 resource centres for 79 people, offering excellent opportunities for people to experience a fuller and more complete lifestyle. We offer specialist services and support for people with severe physical disabilities, challenging behaviours, mental health problems and autism spectrum disorders.

739
Providing support services to 739 adults

115
Providing quality housing in 115 homes

79
Providing four day centres for 79 people

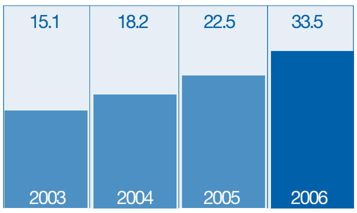


Financial Highlights

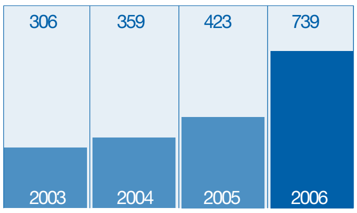
- **Turnover increased 49% to £33.5m (2005: £22.5m)**
- **EBITDA[1] increased 126% to £5.5m (2005: £2.4m)**
- **Operating profit increased by 169% to £4.4m (2005: £1.7m)**
- **Profit before tax, amortisation of goodwill and profit on sale of fixed assets increased by 140% to £3.7m (2005: £1.6m)**
- **Profit before tax increased by 54% to £3.3m (2005: £2.2m)**
- **Adjusted basic earnings per share 8.17p (2005: 4.10p), basic earnings per share 7.07p (2005: 6.17p)**
- **Two acquisitions completed during the year for a total of £24.2m, representing 42 homes and 236 beds**
- **Overall resident capacity increased by 316 to 739**
- **Occupancy levels of 91% at the year end**

[1] Being the operating profit before interest, taxation, depreciation and amortisation of goodwill.

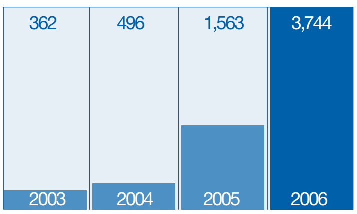
Turnover £m



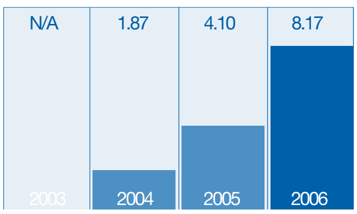
Client capacity



Profit before tax, amortisation of goodwill and profit on sale of fixed assets £m



Adjusted basic earnings per share p



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An exciting market opportunity

The market for people with learning disabilities is growing but remains fragmented. The demographic profile drives demand for high quality care and support. CareTech is well placed to play a leading role in consolidation of the market.

A large and growing market

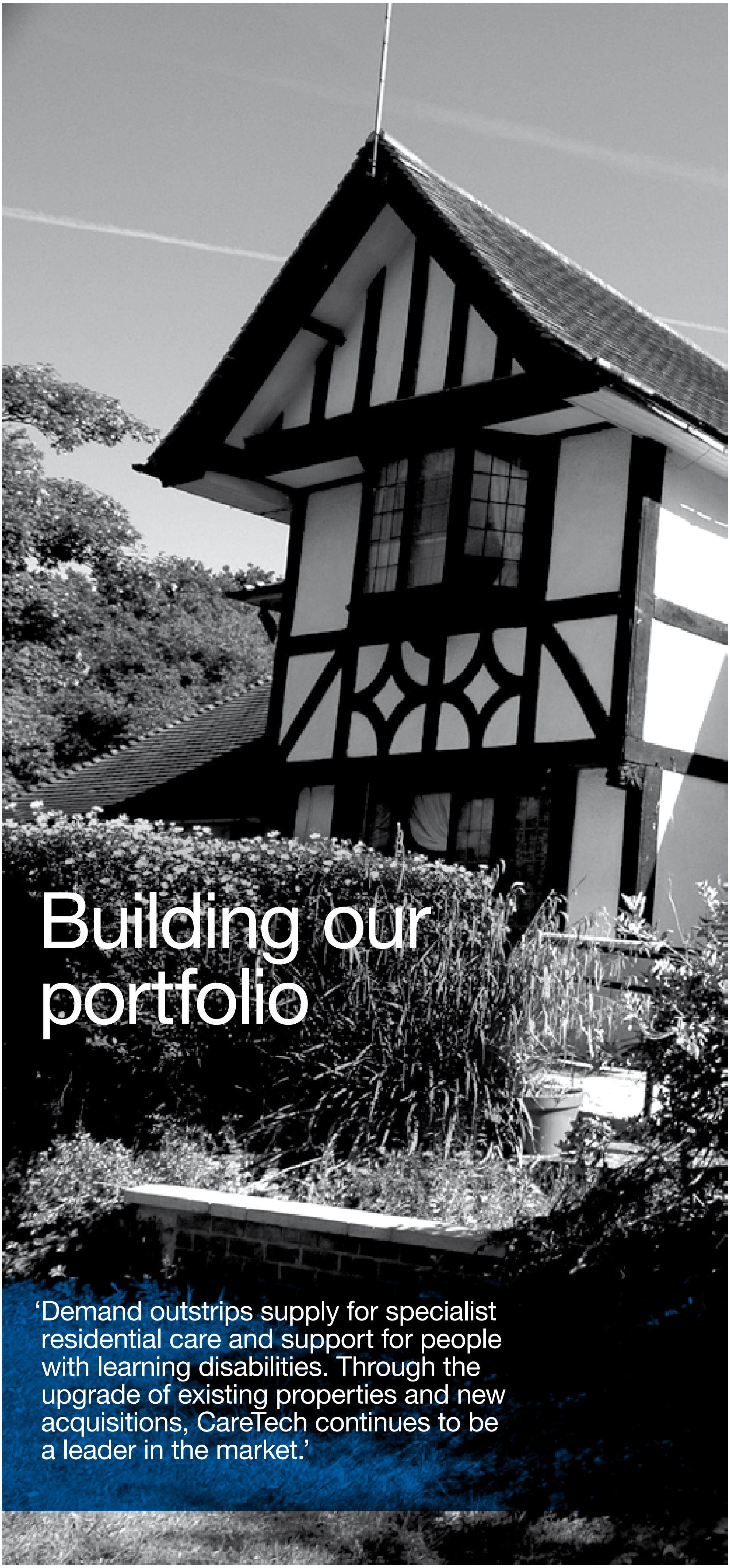
- 1.4m people have a learning disability
- 62,000 residential PLD care places available in the UK
- Estimated shortfall of 25,000 residential care places
- 48% increase in adults over 50 with PLD by 2021
- UK learning disability market worth £4.68bn

Predictable revenues from local authorities and NHS

- Annuity style income underpinned by normal life expectancy of residents – 62% of CareTech residents are aged 50 or under
- Occupancy rates of c.95% achieved in mature homes
- Low client turnover rates evidence long length of stay

Government policy and regulation

- Outsource to private sector to provide a better quality of life rather than old public sector institutionalised care
- Increase in care led decision making – ‘Best Value’
- With the Care Standards Act, smaller operators increasingly unable to comply with tighter regulatory regime



Building our portfolio

'Demand outstrips supply for specialist residential care and support for people with learning disabilities. Through the upgrade of existing properties and new acquisitions, CareTech continues to be a leader in the market.'

Chairman's Statement

> 'The achievements of 2006 continue the well-established track record of growth through organic development and acquisition.'

Introduction
I am pleased to present our full year results for 2006, in what has been another year of sustained growth for CareTech.

CareTech is founded on delivering quality 'person-centred' care services within an efficient business model. I am delighted to say that we continue to maintain the right balance between these complementary principles and this underpins our long term success.

The Group has added a further 316 beds bringing capacity to 739 at the year end, representing a growth of 75%. This includes the organic development of 80 beds, together with the 236 beds added through the Midlands-based acquisitions of Delam Care Limited and Lonsdale Midlands Limited. This performance, which has exceeded the directors' expectations, reflects the delivery of the strategy set out at the flotation last year: a combination of organic and acquisition led growth to deliver shareholder value.

Results
Results to 30 September 2006 demonstrate further growth through both organic development and acquisitions. Revenues rose by 49% to £33.5m (2005: £22.5m), EBITDA rose by 126% to £5.5m (2005: £2.4m) and profit on ordinary activities before taxation, amortisation of goodwill and profit on sale of fixed assets by 140% to £3.7m (2005: £1.6m). Profit before taxation increased by 54% to £3.3m (2005: £2.2m). Adjusted basic earnings per share increased by 99% to 8.17p, basic earnings per share increased by 15% to 7.07p (2005: 6.17p).

Growth strategy
The achievements of 2006 continue the well-established track record of growth through organic development and acquisition. I am particularly pleased that having exceeded the organic development targets, the Company has also been able to complete two significant strategic acquisitions. This growth strategy remains the Board's focus and is supported by prevailing market activity and demographics. The market for people with learning disabilities is growing but remains fragmented with a demographic profile driving demand for high quality care and support. CareTech is well placed to play a leading role in consolidation and offers flexible solutions of high quality to support people with learning disability.

There has been a steady and welcome move towards supported living for people who prefer not to live in residential care settings. The demand for residential care will however continue, with an emphasis toward those people with more complex needs. This is the area in which CareTech has built its reputation for excellence. The executive team has been systematically building up its supported living portfolio so as to offer an attractive blend of services for commissioners and care managers and to date has 4 supported living services supporting 77 individuals.

Demand for the support of disabled children and young people reflects a demographic change. Children with significant disabilities are routinely surviving birth trauma thanks to advances in medical science and the heroic efforts of health professionals. These children often require a lifetime of specialist social care as well as continuing health support. CareTech is well placed to offer the support these very disabled children and young people need and with this in mind has begun to build a portfolio of specialist services to meet demand. We were very pleased with our purchase of Delam Care, a company with a very strong reputation for the provision of services to children. We have retained the services of their experienced management team, and intend to leverage their childcare experience across the Group.

Dividend
The strategy remains in line with that set out at flotation. The Board is not proposing the payment of a dividend (2005: nil) and retained profits will continue to be re-invested in the development of new services to deliver further growth in earnings. The Board will, however, keep the dividend policy under review.

80
Through organic growth we increased our beds total by 80

236
Through acquisitions, we have increased our beds total by 236

316
Total bed capacity has increased by 316

Outlook

We entered the new financial year with confidence and remain firmly focused on providing first class care for the people we support and on delivering outstanding shareholder value.

In November, we completed the acquisition of the Counticare group of services comprising 12 freehold homes and a well-regarded day care facility for a cash consideration of £15m. This has increased capacity by 101 client beds and 150 day care places. Current capacity numbers are therefore 840 client beds and 229 day care places.

The full year effect of growth achieved in the year to 2006 with the progress already achieved in the current year puts us in a very strong position to deliver another solid set of results for 2007.

The market is set to remain favourable and CareTech continues to be well placed to play a leading role in consolidating the growing PLD market.

Conclusion

The success we have achieved in the year has, once again, been made possible by the hard work and dedication of all of our staff. I would like to record my thanks to colleagues and advisors for their continued and personal contribution to our business achievements and to the care of the many people we support in our homes and services across the UK.

We have a strong team at all levels within the Group and it is pleasing to see many employees participating in the share option schemes which were launched in the year.

With strong demographics, a clear development strategy and a winning team, CareTech is well placed to deliver long term and sustainable growth.

Farouq Sheikh
Chairman
CareTech Holdings PLC

Providing high quality care

'CareTech provides solutions tailored to individual needs. Our 'Ordinary Life' model of care programme focuses on community accommodation with modern facilities and appropriate placing of individuals creating a quality home environment.'

Chief Executive's Review

Introduction
The past year has been a year of significant growth for the Group. We have worked hard to deliver the results set out in this Report and Accounts, with activity levels controlled and effectively managed.

This has been underpinned by our previous investment in the head office infrastructure. Several key achievements have positioned us to accommodate further growth. In particular we have strengthened the financial management team and we are implementing the use of information technology across the Group. Our operational management has also progressed with an evolving structure that relies on devolved responsibilities and local relationship management to support further development.

Development of services
2006 has been a year of systematic growth with total client capacity increasing by 75% from 423 beds to 739 beds. This increase has been achieved by both organic development of the existing portfolio together with two significant acquisitions.

Organic growth
Organic development remains a key focus for growth and during the year we comfortably exceeded our targets. 80 bed places were added, comprising 75 places within 12 new homes, together with 5 additional places within existing homes.

Our key relationships with local commissioning managers have helped with the delivery of organic development. Of particular note is the creation of an exceptional school leaver service developed in partnership with local commissioners.

We have always aimed to maintain the correct balance between acquisitions and organic growth. In the past year, we have made best use of our existing assets by adding beds, remodelling existing services and acquiring new sites to deliver both growth and improved quality. We have a skilled team, able to see opportunities for development across the whole portfolio. Where service trends evolve, we work with care managers to remain at the leading edge of service delivery, modifying and improving the services in line with their expectations.

During the year, four supported living services have been developed, offering people with learning disabilities the opportunity for a 'place of their own' while enjoying a comprehensive package of care and support offered in a supported living programme. This has proven very successful and signposts the way forward for community support of people who prefer not to live in a residential care setting.

Acquisitions
CareTech is a quality provider and consolidator in the highly fragmented specialist care market, with a reputation that proves attractive to potential vendors. During the year, we completed two acquisitions in the Midlands.

The acquisition of Delam Care Limited brings forward the planned opportunity to provide services to children and young people who have learning disabilities. Delam is well regarded by care commissioners and their service model will be introduced across the CareTech network. The Delam services also support adults with learning disabilities and provide a strong platform for further growth in the region for both children and adults.

Lonsdale Care, based in the West Midlands, enabled us to consolidate local services into a regional management structure and bring forward our organisational strategic plan. It brought a quality portfolio of residential and nursing home services together with innovative supported living schemes and a good local administrative structure.

The acquisitions are summarised as:

	Cash consideration £m	Homes	Beds
Delam Care Limited	9.2	14	77
Lonsdale Midlands Limited	15.0	28	159

Both businesses have performed ahead of expectations since acquisition and the strengthened management team in the Midlands Region is performing well. These services have enjoyed good occupancy levels and provide further development opportunities.

A key focus for the management team remains the pace at which newly-created services can be brought to maturity on a fully occupied basis. I am pleased to report an overall increase in occupation levels to 91% (2005: 90%) including an occupation percentage of 94% in mature homes, (i.e. those which have been established for 12 months).

Quality
The Company has a person centred ethos and principled service offering with a sound reputation in the sector. We are working to take our message to families and service users themselves and have a successful platform for engagement with users and their care managers in our sponsorship of the major annual conference Learning Disability Today. We are delighted to be invited once again to be co-sponsors of this event alongside the leading not-for-profit organisations and the Department of Health.

CareTech has a long-standing partnership with independent quality audit assessors who monitor and report on performance within the Company's services. This is backed by monthly 'Directors' Visits', routine audits by the Commission for Social Care and Inspection, and the active involvement of our own management team.

The staff development team has supported service quality and achieves admirable results within a comprehensive programme that includes industry leading induction as well as technical training. The Trainee Manager Scheme and Top Team Award have delivered good results, providing a foundation for further growth and the Company is in line with national standards for NVQ training among care staff.

Regional management structure
Anticipating further growth, the Executive has completed the creation of three regional management teams, each headed by a Regional Operations Director. The regions are each structured to support around 500 service users (residents) and each region is responsible for service delivery, service development and financial performance, supported by local finance teams and the head office staff.

In line with the decentralisation policy, we have appointed a Group Financial Controller and two new Regional Operations Directors. In addition, the recent acquisitions have brought skilled professionals to reinforce regional management. Both Lonsdale and Counticare have provided office facilities and infrastructure to support the new regional model of service management.

Within the strategic plan, further regional development will occur as growth and consolidation of services are achieved.

Current trading
2007 has started well with existing services performing in line with plan. The current year will benefit from the contribution of the developments completed in 2006, together with the acquisitions completed in 2006. This will give the business a solid platform on which to build further earnings growth during the course of this year. In addition, the pipeline of organic developments is strong with many projects already under way.

We have already completed the Counticare acquisition and this is an exciting opportunity that fits in neatly with our existing operations in Kent and South London.

Outlook

The Group has made substantial progress since its IPO in October 2005; it has delivered significantly ahead of the plans outlined at that time and is well placed for continuing growth. The regulated markets in which we operate are highly fragmented and CareTech will continue its leading role as a consolidator.

We continue to enjoy good relationships with long-standing partners, and more recent developments in London and the Midlands have strengthened our existing relationships with commissioners and care managers in those areas.

Demand for services remains high and the Group is in constant dialogue with commissioners for the development of new services. As a result, we believe this growth to be sustainable and the outlook remains positive.

Conclusion

The Group's success is founded on the skills and commitment of our staff. We encourage development and leadership and are already seeing the emergence of the next generation of managers.
I welcome our many new colleagues particularly the staff of Delam, Lonsdale and Counticare and take this opportunity to extend my sincere thanks and appreciation for the support and dedication of all staff.

Haroon Sheikh
Chief Executive Officer
5 December 2006

'Our homes are integrated within the wider community. Local authorities recognise the importance of this when making placement decisions.'

Finance Director's Review

'Revenues and operating profits reflect significant uplifts arising from good performances by the established portfolio, together with positive contributions from both organic developments and acquisitions.'

Overview
The financial performance of the Group continues to be strong. Revenues and operating profits reflect significant uplifts arising from good performances by the established portfolio, together with positive contributions from both organic developments and acquisitions.

Turnover and operating profit
Turnover increased by 49% in the year to £33.5m, of which the acquisitions contributed £4.8m.

Operating profits increased by 169% to £4.4m (2005: £1.7m). Continuing operations performed strongly combining the full year effects of the 2005 developments, together with the contribution from new services commenced in the year. Continuing operations increased operating profits to £3.6m (2005: £1.7m). The acquisitions both performed ahead of expectations in the period for which their results are consolidated, their operating profit was £0.8m.

Overheads in the year were £2.6m (2005: £1.9m). This reflects the additional structures which form the regional management teams, together with additional goodwill amortisation and public company costs.

EBITDA increased by 126% to £5.5m (2005: £2.4m), of which the acquisitions contributed £1m. The growth in operating margins highlights the positive operational gearing effect of adding new capacity to the relatively fixed operating base.

Profit on ordinary activities before tax
Profit on ordinary activities before tax, amortisation of goodwill and profit on sale of fixed assets increased by 140% to £3.7m (2005: £1.6m). Profit on ordinary activities before tax, increased by 54% to £3.3m (2005: £2.2m). The charge relating to the amortisation of goodwill has increased in the year to £0.4m (2005: £0.3m) reflecting the part year amortisation of goodwill arising on acquisitions made in the year.

Tax
The Group's effective rate of tax for the year was 23.7% (2005: 16.9%), which in 2006 is lower than the standard rate of tax principally as a result of the benefit of capital allowances and the utilisation of prior year tax losses. In 2005 the effective rate benefited from the absence of tax on the profit from the disposal of properties.

Earnings per share
On an adjusted earnings basis (i.e. earnings per share before amortisation of goodwill and profit on sale of fixed assets) basic earnings per share were 8.17p (2005: 4.10p) representing an increase of 99%. Basic earnings per share rose 14.6% to 7.07p (2005: 6.17p).

Cash flow
Cash generated from operations remains strong at £4.5m (2005: £2.1m). The trading flows for the year were, however, impaired by approximately £0.8m as a result of certain funding authorities reviewing their historic practice of paying quarterly in advance.

Capital expenditure was £33.6m in the year (2005: £7.5m), including £15.5m in respect of acquisitions. This was funded by utilisation of increased debt facilities where loans drawn down were £27.3m.

In October 2005, the Company placed 7,062,500 ordinary shares at £1.60, raising £9.5m net of expenses.

Balance sheet
Shareholders' funds at 30 September 2006 were £16.2m (2005: £4.2m). This increase reflects the impact of the net placing proceeds, together with retained profit for the year. The placing proceeds were used to repay bank debt and fund organic development.

The development and acquisitions in the year have subsequently been debt funded and net bank debt at the end of the year was £35.0m (2005: £13.7m).

During November 2006, the Group reached an agreement with its bankers, Royal Bank of Scotland, to increase

£4.5m
Cash generated from operations remains strong at £4.5m

£33.6m
Capital expenditure was £33.6m in the year, including £15.5m in respect of acquisitions

£16.2m
Shareholders funds at 30 September 2006 were £16.2m

debt facilities by a further £10m to £60m.

Post balance sheet events
On 16 November 2006, the Group purchased freehold assets from Counticare Holdings Limited, together with the entire issued share capital of Counticare Limited and Hazeldene UK Limited for a cash consideration of £15m plus costs.

International Financial Reporting Standards ('IFRS')
The deadline for compliance with IFRS for AIM listed companies is for accounting periods commencing on or after 1 January 2007. The Group's first required reporting under IFRS will be its half year report at March 2008 Preliminary work has been carried out in 2006 to familiarise the Board with the implications of implementing IFRS. This work will continue in 2007.

David Spink
Finance Director
5 December 2006

Sound reputation

'CareTech has a successful platform for engagement with families, service users and their care managers. We also have a long-standing partnership with independent quality audit assessors who monitor and report on performance.'

Board of Directors

1. Farouq Sheikh
Executive Chairman (aged 48)

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 2002 he was short-listed as a finalist in the Entrepreneur of the Year Awards (London Region) and has also presented at healthcare conferences to raise market awareness in the Learning Disabilities sector.

2. Haroon Sheikh BSc
Chief Executive Officer (aged 50)

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 disability.

3. David Spink ACA
Finance Director (aged 50)

David qualified as a chartered accountant with KPMG in 1983. He then joined Air Call plc as a group accountant. In 1989, he joined Healthcall Group PLC as finance and administration manager and company secretary. He was part of Healthcall Group PLC's flotation team when it floated on the Official List in 1994. Healthcall Group PLC was subsequently taken private in 1998 and he remained as company secretary until the company was sold to Nestor Healthcare Group PLC in 2002. He joined CareTech shortly after its management buyout in August 2002. As Finance Director he is responsible for monitoring and operating the Group's financial controls, management reporting and the Group's information technology. He is also Company Secretary.

4. Stewart Wallace
Corporate Development Director (aged 57)

Stewart Wallace qualified as a social worker in 1971, 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.

5. Graham Mattinson
Operations Director (aged 57)

Graham originally worked in the hotel and catering industry where he held several senior posts culminating in subsidiary board level appointments with both Grand Metropolitan plc and Allied Lyons plc. In 1991, he became managing director of PPP Beaumont Plc, a company specialising in healthcare and housing development for elderly people. Following the sale of this company to Westminster Healthcare plc he worked as a self employed consultant before being appointed Head of Assisted Living. He joined CareTech shortly after its management buyout in August 2002 as Commercial Director.

Advisers

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4457287

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33-37 Darkes Lane
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Hertfordshire
EN6 1BB

Company Secretary
David Spink

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Solicitors
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One Ropemaker Street
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EC2Y 9AH

Bankers
The Royal Bank of Scotland plc
280 Bishopsgate
London
EC2M 3YB

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 OLA

6. Dr Richard Steeves
Non-executive Deputy Chairman (aged 44)

Richard was appointed chief executive of Synergy Healthcare plc in 1992. Synergy Healthcare is a leading provider of non-clinical support services in the UK and The Netherlands, focusing on surgical support such as decontamination, and patient support such as infection control. Previously, he was corporate development manager for Braithwaite plc, a plant hire company, and an associate consultant with strategic consultant LEK Consulting. Richard has a PhD in biochemistry from St John's College Cambridge and a BSc (1st Class Hons) in human physiology from the University of British Columbia in Vancouver, Canada.

7. Richard Midmer
Non-executive Director (aged 52)

Richard was the Financial Director for NHP plc from November 2000 until February 2005 and was also responsible for NHP's property division. NHP is a UK property investment group specialising in the ownership of freehold or long leasehold interests in modern purpose-built care homes, the majority of which are leased to care home operators on long-term leases. Prior to this, he was in construction, and the oil and gas sectors. A civil engineer by training, he was treasurer and finance director of British Borneo Oil & Gas Plc from 1997–2000.

8. Karl Monaghan
Non-executive Director (aged 44)

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

Directors' Report

Directors' Report
The directors present their report and the audited Group financial statements for the year ended 30 September 2006.

Re-registration and admission to AIM
On 5 October 2005, the Company was re-registered as a public limited company. The Company was admitted to AIM on 12 October 2005.

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

Business review and future developments
The profit and loss account detailed on page 18 sets out the result for the year.

The Chairman's Statement, Chief Executive's Review and the Finance Director's Review report on the performance of the Group during the year ended 30 September 2006 and its prospects for the future. This information fulfils the requirements of the Business Review and is incorporated in this report by reference.

Dividends
The directors do not recommend the payment of a dividend (2005: £nil).

Substantial shareholdings
As at 5 December 2006, 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 on page 14:

	No. of shares	Percentage
Artemis Investment Management	3,012,708	8.31%
UBS Global Asset Management	2,138,854	5.90%
Old Mutual Asset Managers	1,910,693	5.27%
Goldman Sachs (SL)	1,904.370	5.26%

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 consult them on a regular basis so that their views may be taken into account in taking decisions which may affect their interests, and to encourage their participation in schemes through which they will benefit from the Group's progress and profitability.

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 equipment or the provision of suitable alternative employment.

Authority to allot shares
Pursuant to written resolutions dated 4 October 2005, the directors were granted authority under Section 80 of the Companies Act 1985 to allot shares with an aggregate nominal value of up to the value of the authorised but unissued share capital of the Company.

The directors were also granted authority under Section 95 of the Companies Act 1985 to allot the Placing Shares for cash pursuant to the authority referred to above and up to a further 5% of the issued ordinary share capital immediately following admission to AIM.

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 or standard payment practice, but it is the Group's policy to pay all its suppliers within 30 days of the end of the month in which it received the goods or services.

The number of days' purchases ('creditor days') outstanding for payment by the Group at the year end was 23.5 days (2005: 21.8 days). The parent company is a holding company and does not trade.

Auditors
During the year KPMG LLP resigned as auditors to the Company and KPMG Audit Plc were appointed by the Board.

KPMG Audit Plc have expressed their willingness to continue in office and, in accordance with Section 384 of the Companies Act 1985, a resolution for their re-appointment 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 auditors are not aware. 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.

Charitable and political donations
No charitable or political donations were made during the year.

Financial instruments
The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which is 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 15 to the financial statements.

Share options
The Company operates three share option schemes: The CareTech Holdings 2005 Approved Share Option Scheme ('The Approved Scheme'); the CareTech Holdings 2005 Unapproved Share Option Scheme ('The Unapproved Scheme') and the CareTech Holdings 2005 Share-save Scheme ('the SAYE Scheme').

On 13 October 2005 the Company granted options to 81 employees over a total of 627,375 ordinary shares under the Approved Scheme. At 30 September 2006, options in respect of 142,812 shares had lapsed, with options in respect of 484,563 shares remaining. The options are exercisable at any time from the third anniversary of grant to the tenth anniversary. The exercise price is 169p per share, being the closing price on 12 October 2005.

On 7 November 2005, the Company granted options to 61 employees over a total of 186,033 ordinary shares under the SAYE scheme. The options are exercisable at any time from the third anniversary of grant. The exercise price is 136p per share.

On 2 August 2006, the Company granted options to 8 employees over a total of 52,427 ordinary shares under the Approved Scheme and to 1 employee over 8,220 ordinary shares under the Unapproved Scheme. The options are exercisable at any time from the third anniversary of grant to the tenth anniversary. The exercise price is 292p.

Post balance sheet event

On 16 November 2006, the Group acquired freehold assets from Counticare Holdings Limited, together with the entire issued share capital of Counticare Limited and Hazeldene UK Limited for a cash consideration of £15m plus costs.

Corporate governance

Although the Company is not required to comply with the provisions of the Combined Code, the directors intend to comply, so far as it is practicable and appropriate for a public company of its size and nature.

The directors believe the Board is soundly constituted although, at this stage of the Group's development, it is felt the functions of a Nomination Committee can be adequately fulfilled by deliberation of the full Board. This will nevertheless be kept under review.

With at least 10 full Board meetings throughout the year, the Board is well able to exercise control over the activities of the Group.

The Company maintains appropriate directors' and officers' liability insurance.

All directors have access to the advice and services of the Company Secretary.

The Audit Committee comprises Richard Midmer (Chairman), Farouq Sheikh, Richard Steeves and Karl Monaghan. The 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.

The Remuneration Committee comprises Richard Steeves (Chairman), Richard Midmer and Karl Monaghan and meets at least twice each year. The principal duties of the committee are to review the scale and structure of the remuneration and service contracts for executive directors and senior management. The Committee also administers the Company's share option schemes.

Internal controls

The Group has established processes and procedures for identifying, evaluating and managing the significant risks faced by the Group. These processes have been in place for the period under review and up to the date of approval of this annual report and financial statements. The processes and procedures will be regularly reviewed by the Board.

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.

A process of control, self-assessment and hierarchical reporting has been established which 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 for each operating business, and monthly management reporting on actual performance against these budgets for each operating business
- Management 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
- 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
- Review of the external audit work plans.

Directors

The names of the current directors together with brief biographical details are shown on pages 10 and 11.

Richard Steeves, Richard Midmer and Karl Monaghan were appointed to the Board on 7 October 2005.

In accordance with the articles of association, Stewart Wallace and David Spink retire by rotation and, being eligible, offer themselves for re-election. Both directors have service contracts which are terminable by the Company on not less than 12 months' notice.

Directors' service agreements

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

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

Remuneration policy

It is the Company's policy to provide for each of its executive Directors a remuneration 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.

Non-executive directors' remuneration

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' Report
continued

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

At 30 September 2006

	Percentage of issued share capital (%)	Number of Ordinary 0.5p
Westminster Holdings Limited[1]	40.77	14,772,500
Stewart Wallace	4.10	1,486,250
David Spink	3.67	1,330,000
Graham Mattinson	3.67	1,330,000
Richard Steeves	0.04	15,625
Richard Midmer	0.03	12,500
Karl Monaghan	0.08	31,250

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

At 30 September 2005

	B1 Ordinary 0.5p	B2 Ordinary 0.5p	C1 Ordinary 0.5p	C2 Ordinary 0.5p	D Ordinary 1p
Farouq Sheikh	22,500	22,500	–	–	–
Haroon Sheikh	22,500	22,500	–	–	–
Stewart Wallace	–	–	2,000	2,000	1,750
David Spink	–	–	2,000	2,000	1,750
Graham Mattinson	–	–	2,000	2,000	1,750

Executive directors' remuneration
The remuneration of the executive directors is determined by the Remuneration Committee.

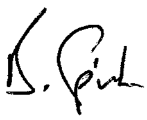
The following comprised the principal elements of executive directors' remuneration for the period under review:

- Basic salary
- Bonus
- Benefits, including company car (or car allowance) and vehicle expenses, healthcare and permanent health insurance
- Pension contribution.

Information forming part of the financial statements
Directors' emoluments
The various elements of remuneration (excluding employer pension contributions) received by each director were as follows:

	Salary and fees		Benefits		Annual bonus		Pension		Total	
Year to 30 September	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Current directors										
Farouq Sheikh	**55**	27	**23**	32	**24**	3	**50**	50	**152**	112
Haroon Sheikh	**80**	43	**12**	19	**29**	3	**50**	50	**171**	115
David Spink	**74**	64	**11**	7	**17**	7	**3**	3	**105**	81
Stewart Wallace	**67**	58	**11**	7	**15**	3	**3**	3	**96**	71
Graham Mattinson	**67**	57	**11**	5	**17**	11	**3**	2	**98**	75
Richard Steeves	**23**	–	**–**	–	**–**	–	**–**	–	**23**	–
Richard Midmer	**19**	–	**–**	–	**–**	–	**–**	–	**19**	–
Karl Monaghan	**19**	–	**–**	–	**–**	–	**–**	–	**19**	–
Former directors										
A Murtagh	**–**	13	**–**	**–**	**–**	–	**–**	–	**–**	13
G Cook	**–**	53	**–**	6	**–**	3	**–**	–	**–**	62
Total	**404**	315	**68**	76	**102**	30	**109**	108	**683**	529

By order of the Board



David Spink
Company Secretary

5 December 2006

Leighton House
33-37 Darkes Lane
Potters Bar
Hertfordshire
EN6 1BB

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Company and Group financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group to prevent and detect fraud and other irregularities.

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for the period.

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

Independent Auditors' Report to the Members of CareTech Holdings PLC

We have audited the Group and parent company financial statements (the 'financial statements') of CareTech Holdings PLC for the year ended 30 September 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is not consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Review.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 September 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5 December 2006

2 Cornwall Street
Birmingham
B3 2DL

Group Profit and Loss Account
For the year ended 30 September 2006

	Notes	2006 £000	2005 £000
Turnover	1		
– continuing operations		**28,622**	22,475
– acquisitions		**4,828**	–
		33,450	22,475
Cost of sales		**(26,394)**	(18,923)
Gross profit		**7,056**	3,552
Administrative expenses		**(2,623)**	(1,902)
Operating profit			
– continuing operations		**3,590**	1,650
– acquisitions		**843**	–
		4,433	1,650
Operating profit before interest, taxation, depreciation and amortisation		**5,502**	2,438
Depreciation	11	**(670)**	(517)
Amortisation	10	**(399)**	(271)
Operating profit		**4,433**	1,650
Profit on sale of fixed assets	4	**–**	875
Interest receivable and similar income	5	**122**	39
Interest payable and similar charges	6	**(1,210)**	(397)
Profit on ordinary activities before taxation		**3,345**	2,167
Taxation on profit on ordinary activities	7	**(792)**	(366)
Profit on ordinary activities after taxation and for the financial year		**2,553**	1,801
Earnings per share			
– basic	9	**7.07p**	6.17p
– diluted	9	**7.03p**	6.17p
Adjusted earnings per share			
– basic	9	**8.17p**	4.10p
– diluted	9	**8.13p**	4.10p

There are no other recognised gains or losses other than the results as stated above for the current and preceding year.

Group Balance Sheet
At 30 September 2006

	Notes	**2006 £000**	2005 £000
Fixed assets			
Intangible assets	10	**7,408**	4,371
Tangible assets	11	**48,401**	15,761
		55,809	20,132
Current assets			
Stock	13	**–**	22
Debtors	14	**2,766**	2,672
Cash at bank and in hand		**1,478**	1,827
		4,244	4,521
Creditors: amounts falling due within one year	15	**(6,851)**	(11,825)
Net current liabilities		**(2,607)**	(7,304)
Total assets less current liabilities		**53,202**	12,828
Creditors: amounts falling due after more than one year	16	**(36,984)**	(8,663)
Net assets		**16,218**	4,165
Capital and reserves			
Called up share capital	19	**181**	1
Share premium account	20	**9,569**	249
Profit and loss account	20	**6,468**	3,915
Equity shareholders' funds	21	**16,218**	4,165

These financial statements were approved by the Board of Directors on 5 December 2006 and were signed on its behalf by:

F Sheikh
Chairman

D Spink
Finance Director

Company Balance Sheet

At 30 September 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Investments	12	**10,648**	10,648
		10,648	10,648
Current assets			
Debtors	14	**1,925**	521
Cash at bank and in hand		**9**	9
		1,934	530
Creditors: amounts falling due within one year	15	**(62)**	(8,154)
Net current assets/(liabilities)		**1,872**	(7,624)
Total assets less current liabilities		**12,520**	3,024
Creditors: amounts falling due after more than one year	16	**–**	–
Net assets		**12,520**	3,024
Capital and reserves			
Called up share capital	19	**181**	1
Share premium account	20	**9,569**	249
Profit and loss account	20	**2,770**	2,774
Equity shareholders' funds		**12,520**	3,024

These financial statements were approved by the Board of Directors on 5 December 2006 and were signed on its behalf by:

F Sheikh
Chairman

D Spink
Finance Director

Group Cash Flow Statement

For the year ended 30 September 2006

	Notes	2006 £000	2005 £000
Net cash inflow from operating activities	24	**4,547**	2,064
Returns on investments and servicing of finance	25	**(1,082)**	(380)
Taxation		**–**	–
Capital expenditure and financial investment	25	**(18,045)**	(7,542)
Acquisitions, net of cash acquired		**(15,572)**	–
Dividends paid		**–**	–
Net cash outflow before financing		**(30,152)**	(5,858)
Financing	25	**29,803**	6,413
Change in cash		**(349)**	555

	Notes	2006 £000	2005 £000
Reconciliation of net cash flow to movement in net debt			
Change in cash in the year	26	**(349)**	555
Cash flow from increase in debt financing	25	**(20,538)**	(6,413)
Redemption of share capital	25	**–**	(6,445)
New HP inceptions	26	**(369)**	(235)
Change in net debt resulting from cash flows		**(21,256)**	(12,538)
Net debt at start of financial year		**(13,746)**	(1,208)
Net debt at end of financial year		**(35,002)**	(13,746)

Notes to the Financial Statements

1. Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards, applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The Group has adopted FRS 21 'Events after the balance sheet date', FRS 22 'Earnings per share' and FRS 28 'Corresponding amounts' in these financial statements. There has been no impact of adopting these standards.

Going concern
Although the balance sheet of the Group shows net current liabilities, the projected further profitability of the Group's trading subsidiaries show that sufficient cash flows will be generated to finance the Group's trading activities for a period of at least 12 months from the date of approval of these financial statements. The directors therefore consider it appropriate to prepare these financial statements on a going concern basis.

Basis of consolidation
The Group accounts consolidate the accounts of CareTech Holdings PLC and its subsidiary undertakings made up to 30 September 2006. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the Group Profit and Loss Account from the date of acquisition or up to the date of disposal.

No profit and loss account is presented for CareTech Holdings PLC as permitted by Section 230 of the Companies Act 1985.

Goodwill
Goodwill arising on acquisitions is capitalised, classified as an asset and amortised on a straight-line basis over its estimated useful life.

On subsequent disposal or termination of any business, the profit or loss on disposal is calculated after charging/(crediting) the unamortised amount of any related goodwill.

Fixed assets and depreciation
Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings	–	2% straight line
Short leasehold property	–	over the life of the lease
Fixtures, fittings and equipment	–	25% reducing balance
Motor vehicles	–	25% reducing balance

Stock
Stock is included as the lower of cost and net realisable value on an average cost basis.

Leases
Assets acquired under finance leases are treated as tangible fixed assets and initially recorded at the net present value of the minimum lease payments at the inception of the lease. The assets are depreciated over their useful economic lives. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Borrowings
Borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs, together with finance costs, are charged to the Profit and Loss Account over the expected term of the borrowings.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Post retirement benefits
The Group operated a defined contribution pension scheme during the year. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Share options
The cost of awards to employees that take the form of shares or rights to shares is recognised over the period of the employees' related performance. Where there are no performance criteria, the cost is recognised when that employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

1. Accounting policies continued

Turnover
Turnover represents the gross fees receivable for the period derived from the Group's principal activity wholly undertaken in the United Kingdom. Accordingly no segmental analysis is shown.

Transactions with Group companies
The Company has taken advantage of the exemption contained in FRS 8 and not disclosed transactions with other Group companies.

2. Profit on ordinary activities before taxation

		2006 £000	2005 £000
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration – audit services		**49**	30
Amortisation of goodwill		**399**	271
Depreciation of owned assets		**488**	420
Depreciation of assets held under finance lease		**182**	97
Operating lease rentals	– land and buildings	**3,466**	3,182
	– plant and machinery	**233**	261

Auditors' remuneration
In addition to the amounts above, £30,000 (2005: £nil) was incurred in respect of non-audit fees relating to transaction advice associated with the acquisitions in the year (see note 10).

Notes to the Financial Statements
continued

3. Staff costs

	2006 £000	2005 £000
Wages and salaries	**16,181**	10,545
Social security costs	**1,448**	855
Pension costs	**134**	125
	17,763	11,525

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

	No.	No.
Residential care staff	**1,086**	671
Maintenance	**6**	4
Management and administration	**60**	40
	1,152	715

4. Profit on sale of fixed assets

	2006 £000	2005 £000
Profit on sale and leaseback transaction	**–**	875
	–	875

In September 2005, the Group concluded a sale and leaseback of a property, resulting in cash proceeds of £1,620,000 and a profit on sale of fixed assets of £875,000. No taxation arose on this transaction. No such transactions were entered into in 2006.

5. Interest receivable and similar income

	2006 £000	2005 £000
Bank interest	**120**	39
Other interest	**2**	–
	122	39

6. Interest payable and similar charges

	2006 £000	2005 £000
On bank loans and overdrafts	**1,145**	350
Finance charges payable in respect of finance leases and hire purchase contracts	**57**	34
On other loans	**8**	13
	1,210	397

7. Taxation on profit on ordinary activities

(a) Analysis of charge for year

	2006 £000	2005 £000
Corporation taxation	**792**	366

(b) Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax. The differences are explained below:

	2006 £000	2005 £000
Profit on ordinary activities before taxation	**3,345**	2,167
Current tax at 30% (2005: 30%)	**1,004**	650
Capital allowances in excess of depreciation	**(451)**	(179)
Expenses disallowed	**239**	78
Tax allowances on disposal of properties	**–**	(183)
	792	366

The deferred taxation assets not provided are:

	2006 £000	2005 £000
Capital allowances	**413**	129
Other timing differences	**–**	–
	413	129

8. Company profit and loss account

	2006 £000	2005 £000
Company (loss)/profit for the year	**(4)**	7
Purchase of own shares	**–**	(6,445)
	(4)	(6,438)

Notes to the Financial Statements
continued

9. Earnings per share

	2006 £000	2005 £000
Earnings for the year	**2,553**	1,801
Goodwill amortisation	**399**	271
Profit on sale of fixed assets	**–**	(875)
Adjusted earnings for the year	**2,952**	1,197
Weighted number of shares in issue for basic earnings per share	**36,116,358**	29,169,924
Weighted number of shares in issue for diluted earnings per share	**36,294,625**	29,169,924

Adjusted earnings for the year represent earnings for the year adjusted for goodwill amortisation and the profit on sale of fixed assets.

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 year.

	2006	2005
Earnings per share (pence per share)		
Basic	**7.07p**	6.17p
Diluted	**7.03p**	6.17p
Adjusted earnings per share (pence per share)		
Basic	**8.17p**	4.10p
Diluted	**8.13p**	4.10p

10. Intangible assets

Group	Goodwill £000
Cost	
At 1 October 2005	5,208
Additions	3,436
At 30 September 2006	**8,644**
Amortisation	
At 1 October 2005	837
Provided during the year	399
At 30 September 2006	**1,236**
Net book value	
At 30 September 2006	**7,408**
At 30 September 2005	4,371

10. Intangible assets continued

(a) Acquisition of Delam Care Limited

On 2 May 2006, CareTech Community Services Limited acquired the entire share capital of Delam Care Limited, together with associated freehold properties, for a cash consideration of £9,070,000 plus costs.

The provisional fair values attributed by the directors to the net assets are as follows:

	Book value £000	Freeholds acquired £000	Fair value adjustment £000	Fair value £000
Intangible	30		(30)	–
Tangible fixed assets	113	7,000		7,113
Stock	30			30
Debtors	1,411			1,411
Cash	624			624
Creditors	(602)			(602)
				8,576
Consideration paid – cash				9,070
Costs of acquisition				367
Total cost of acquisition				9,437
Goodwill arising on acquisition				861

The book values of assets and liabilities were extracted from the underlying accounting records of Delam Care Limited at the date of acquisition. The fair value adjustments made to tangible fixed assets were to reflect their value on an existing use market value basis.

The goodwill arising on this acquisition will be amortised to the Profit and Loss Account over its estimated useful economic life of 20 years, being the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

In its financial year to 30 April 2005, Delam Care Limited recorded a retained loss of £22,000. In the period from 1 May 2005 to acquisition, Delam Care Limited recorded turnover of £3,674,000, gross profit of £1,355,000, operating profits of £857,000 and a retained profit of £587,000. In the period since acquisition to 30 September 2006, Delam Care Limited contributed turnover of £1,610,000 and operating profits of £427,000.

Notes to the Financial Statements
continued

10. Intangible assets continued

(b) Acquisition of Lonsdale Midlands Limited
On 26 May 2006, CareTech Community Services Limited acquired the entire share capital of Lonsdale Midlands Limited, for a cash consideration of £6,154,000 plus costs, together with the assumption of certain liabilities.

The provisional fair values attributed by the directors to the net assets are as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible	28	(28)	–
Tangible fixed assets	9,551	2,869	12,420
Debtors	3,551	49	3,600
Cash	45		45
Creditors	(11,065)	(771)	(11,836)
			4,229
Consideration paid – cash			6,514
Costs of acquisition			290
Total cost of acquisition			6,804
Goodwill			2,575

The book values of assets and liabilities were extracted from the underlying accounting records of Lonsdale Midlands Limited at the date of acquisition. The fair value adjustments made to tangible fixed assets reflect their value on an existing use market value basis. The fair value adjustments to stock and debtors were to adjust the carrying values of assets acquired to estimated realisable value. Fair value adjustments to creditors principally relate to the recognition of liabilities not recorded in the underlying records at the date of acquisition.

The goodwill arising on this acquisition will be amortised to the Profit and Loss Account over its estimated useful economic life of 20 years, being the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

In its financial year to 31 July 2005, Lonsdale Midlands Limited recorded a retained loss of £1,815,000. In the period from 1 August 2005 to acquisition, Lonsdale Midlands Limited recorded turnover of £7,416,000 gross profit of £1,972,000, an operating loss of £473,000 and a retained loss of £1,007,000. In the period since acquisition to 30 September 2006, Lonsdale Midlands Limited contributed turnover of £3,218,000 and operating profits of £416,000.

Company
The Company has no intangible assets.

11. Tangible fixed assets

Group	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2005	14,695	607	2,141	17,443
Additions	12,725	350	702	13,777
Acquisitions	19,213	54	266	19,533
Disposals	–	–	–	–
At 30 September 2006	**46,633**	**1,011**	**3,109**	**50,753**
Depreciation				
At 1 October 2005	541	198	943	1,682
Provided during the year	215	145	310	670
Disposals	–	–	–	–
At 30 September 2006	**756**	**343**	**1,253**	**2,352**
Net book value				
At 30 September 2006	**45,877**	**668**	**1,856**	**48,401**
At 30 September 2005	14,154	409	1,198	15,761

11. Tangible fixed assets continued

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

	2006 £000	2005 £000
Freehold	**41,822**	10,783
Leasehold	**4,055**	3,371
	45,877	14,154

Group

Assets held under finance lease or similar hire purchase agreements and included above:

	£000
Net book value	703
Depreciation in the year	182

Company

The Company has no tangible fixed assets.

12. Fixed asset investments

Company	Subsidiary undertakings £000
Cost	
At 1 October 2005 and 30 September 2006	**10,648**

Details of the investments which the Group and Company (unless indicated) hold, are as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
CareTech Community Services Limited	Ordinary	100%	Operator of residential care homes
CareTech Community Services (No.2) Limited[1]	Ordinary	100%	Operator of residential care homes
Care Support Services Limited[1]	Ordinary	100%	Operator of residential care homes
Delam Care Limited[1]	Ordinary	100%	Operator of residential care homes
Sunnyside Care Homes Limited[1]	Ordinary	100%	Operator of residential care homes
Lonsdale Midlands Limited[1]	Ordinary	100%	Operator of residential care homes
The Community Care Company (UK) Limited[1]	Ordinary	100%	Dormant
Colerne Community Care (Kent) Limited[1]	Ordinary	100%	Dormant
Colerne Community Care (Oxon) Limited[1]	Ordinary	100%	Dormant
Colerne Community Care (SE) Limited[1]	Ordinary	100%	Dormant
Colerne Community Care (Whiston) Limited[1]	Ordinary	100%	Dormant
Delham Care Limited	Ordinary	100%	Dormant
KO'B Care Limited[1]	Ordinary	100%	Dormant
South East Care Services Limited[1]	Ordinary	100%	Dormant
Holirest Care Limited[1]	Ordinary	100%	Dormant

[1] Held by subsidiary undertaking.
[2] All subsidiaries are incorporated in England and Wales.

Notes to the Financial Statements
continued

13. Stock

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Consumable stock	**–**	22	**–**	–

14. Debtors

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Trade debtors	**1,601**	1,349		–
Amounts owed by Group undertakings	**–**	–	**1,916**	402
ACT recoverable	**–**	–	**–**	–
Other debtors	**57**	156	**9**	119
Prepayments and accrued income	**1,108**	1,167	**–**	–
	2,766	2,672	**1,925**	521

15. Creditors: amounts falling due within one year

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Bank loans	**–**	6,500	**–**	–
Other loans	**–**	300	**–**	300
Amounts owed to Group undertakings	**–**	–	**–**	7,676
Obligations under finance leases and hire purchase contracts	**287**	110	**–**	–
Trade creditors	**1,922**	1,199	**–**	–
Corporation tax	**1,244**	898	**–**	–
Other taxes and social security costs	**607**	456	**–**	148
Other creditors	**100**	92	**–**	–
Accruals and deferred income	**2,691**	2,270	**62**	30
	6,851	11,825	**62**	8,154

Financial instruments
The Group's financial instruments comprise short-term debtors and creditors, borrowings and cash, all of which are denominated in sterling. The main purpose of these financial instruments is to raise finance for the Group's operations. As permitted by FRS 13 'Derivatives and other financial instruments', short-term debtors and creditors have been excluded from the disclosures.

It is, and has been throughout the year, the Group's policy that no trading of a speculative nature in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Finance Director is responsible for managing these risks and reports to the Board on a regular basis on the policies adopted. The policies are summarised below.

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. The Group currently carries two hedging instruments, details of which are as follows:

- A five year floating rate swap of £10m, commencing 25 October 2002, at LIBOR with a cap rate of 7% and a floor rate of 4.65%.
- A four year floating rate swap of £25m, commencing 19 October 2006, at LIBOR with a cap rate of 5.75% and a floor rate of 4.78%.

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 and overdraft facilities totalling £51.5m, 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 overdraft facilities.

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Bank loans	**35,658**	8,321	**–**	–
Obligations under finance leases and hire purchase contracts	**534**	342	**–**	–
Corporation tax	**792**	–	**–**	–
	36,984	8,663	**–**	–

17. Loans

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Amounts falling due				
In one year or less or on demand	**–**	6,800	**–**	300
Between one and two years	**–**	–	**–**	–
Between two and five years	**8,686**	1,065	**–**	–
In five years or more	**27,495**	7,256	**–**	–
Less: unamortised issue costs	**(523)**	–	**–**	–
	35,658	15,121	**–**	300
Less: included in Creditors: amounts falling due within one year	**–**	(6,800)	**–**	(300)
Disclosed in Creditors: amounts falling due after more than one year	**35,658**	8,321	**–**	–

Following flotation, the Company repaid all outstanding Loan Stock (2005: £300,000) which bore a fixed interest rate of 6%.

The bank loans and overdrafts are secured by way of a charge over certain assets of the Group.

18. Obligations under finance leases and hire purchase contracts

The maturity of obligations under finance and hire purchase contracts is as follows:

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Amounts payable				
Within one year	**287**	110	**–**	–
In the second to fifth years	**534**	342	**–**	–
	821	452	**–**	–

Notes to the Financial Statements
continued

19. Share capital

Authorised share capital

		2006 £000	2005 £000
51,812,366	Ordinary shares of 0.5p each	**259**	–
53,402	Deferred shares of 0.5p each		
40,000	'A' ordinary shares of 1p each	**–**	–
45,000	'B1' ordinary shares of 0.5p each	**–**	1
45,000	'B2' ordinary shares of 0.5p each	**–**	–
8,000	'C1' ordinary shares of 0.5p each	**–**	–
8,000	'C2' ordinary shares of 0.5p each	**–**	–
7,000	'D' ordinary shares of 1p each	**–**	–
		259	1

Called up share capital

		2006 £000	2005 £000
36,232,424	Ordinary shares of 0.5p each	**181**	–
53,402	Deferred shares of 0.5p each		
45,000	'B1' ordinary shares of 0.5p each	**–**	1
45,000	'B2' ordinary shares of 0.5p each	**–**	–
8,000	'C1' ordinary shares of 0.5p peach	**–**	–
8,000	'C2' ordinary shares of 0.5p each	**–**	–
7,000	'D' ordinary shares of 1p each	**–**	–
		181	1

On 4 October 2005, the following resolutions were passed:

(a) All of the B1 ordinary shares, B2 ordinary shares, C1 ordinary shares, C2 ordinary shares and D shares in issue as at such date were converted into ordinary shares and/or deferred shares

(b) All of the A ordinary shares, none of which were in issue as at such date, were reclassified as ordinary shares

(c) The authorised share capital of the Company was increased from £1,000 to £259,329, comprising 51,812,366 ordinary shares and 53,402 deferred shares on a non pre-emptive basis

(d) The Directors were granted authority to allot ordinary shares and deferred shares on a non pre-emptive basis.

Upon the conversion referred to in paragraph (a) above having been completed, £145,517 of the Company's reserves was capitalised and used to issue bonus shares in the form of ordinary shares to each of the shareholders pro rata to their new holdings of ordinary shares.

20. Reserves

Group	Share Premium account £000	Profit and loss account £000
At 1 October 2005	249	3,915
Profit for the year	–	2,553
Issue of ordinary shares, net of issue costs	9,320	–
At 30 September 2006	**9,569**	**6,468**

Company	Share Premium Account £000	Profit and loss account £000
At 1 October 2005	249	2,774
Profit for the year	–	(4)
Issue of ordinary shares, net of issue costs	9,320	–
At 30 September 2006	**9,569**	**2,770**

21. Reconciliation of movements in shareholders' funds

	2006		2005	
	Group £000	**Company £000**	Group £000	Company £000
Profit/(loss) for the financial year	**2,553**	**(4)**	1,801	7
New shares issued	**9,500**	**9,500**	–	–
Shares redeemed	**–**	**–**	(6,445)	(6,445)
	12,053	**9,496**	(4,644)	(6,438)
Opening shareholders' funds	**4,165**	**3,024**	8,809	9,462
Closing shareholders' funds	**16,218**	**12,520**	4,165	3,024

22. Pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £25,790 (2005: £16,208). Contributions amounting to £5,888 (2005: £4,161) were payable at the year end.

23. Other financial commitments

Group

(a) At 30 September the Group had annual commitments under non-cancellable operating leases as follows:

	2006		2005	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**60**	**62**	11	60
In the second to fifth years inclusive	**–**	**119**	54	147
In over five years	**3,259**	**–**	3,155	–
	3,319	**181**	3,220	207

(b) In February 2002, CareTech Community Services Limited guaranteed certain 35 year property leases following the sale and leaseback of 5 properties.

(c) In August 2004, the Company guaranteed certain 35 year property leases following the sale and leaseback of 26 freehold properties by CareTech Community Services Limited.

24. Reconciliation of operating profit to net cash flow from operating activities

	2006 £000	2005 £000
Operating profit	**4,433**	1,650
Depreciation	**670**	517
Amortisation of goodwill	**399**	271
Change in debtors	**1,775**	(873)
Change in creditors	**(2,730)**	499
Net cash flow from operating activities	**4,547**	2,064

25. Analysis of cash flows

	2006 £000	2005 £000
Returns on investments and servicing of finance		
Interest received	**122**	39
Interest paid	**(1,204)**	(419)
	(1,082)	(380)

	2006 £000	2005 £000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(18,045)**	(9,162)
Proceeds of disposal of tangible fixed assets	**–**	1,620
	(18,045)	(7,542)

Notes to the Financial Statements
continued

25. Analysis of cash flows continued

	2006 £000	2005 £000
Financing		
Issue of ordinary share capital	**9,500**	–
Repayment of loans	**(6,800)**	(3,177)
Capital element of finance lease rental payments	**(235)**	(97)
New term loan drawn down	**27,338**	16,132
Redemption of share capital	**–**	(6,445)
	29,803	6,413

26. Analysis of net debt

	At 1 Oct 2005 £000	Cash flow £000	Acquisitions £000	**At 30 Sept 2006 £000**
Cash at bank and in hand	1,827	(1,018)	669	**1,478**
Debt due within one year	(6,800)	6,800	–	**–**
Debt due after one year	(8,321)	(27,338)	–	**(35,659)**
Finance leases and hire purchase contracts	(452)	(369)	–	**(821)**
	(13,746)	(21,925)	669	**(35,002)**

27. Contingent liabilities

During 2004, the Group disposed of assets and has claimed rollover relief in respect of corporation tax, as it expects to make sufficient qualifying expenditure within three years of the disposals.

The maximum corporation tax which would become payable if the Group does not incur sufficient qualifying expenditure is £4,500,000.

28. Related party disclosures

Leighton House

CareTech Community Services Limited entered into a lease agreement in 1998 with F Sheikh and H Sheikh, both directors, concerning the use of Leighton House, the Group's head office. The lease is for 10 years and expires in May 2007 with the option to extend the lease for a further 10 years. The annual rent charged under the lease is £53,650 (2005: £53,650).

Form of Proxy

I/We………...………………………………

(PLEASE INSERT FULL NAMES IN BLOCK CAPITALS)

of……

being (a) member(s) of CareTech Holdings PLC hereby appoint the Chairman of the Meeting, or,

failing him, ………………………………….. , as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 29 March 2007 at 10.00 am and at any adjournment thereof, I/We direct my/our proxy to vote as follows:

Resolutions		*For	*Against
Resolution 1 (Ordinary)	To receive the report of the directors and the audited financial statements for the year ended 30 September 2006		
Resolution 2 (Ordinary)	To re-appoint Stewart Wallace as a director of the Company		
Resolution 3 (Ordinary)	To re-appoint David Spink as a director of the Company		
Resolution 4 (Ordinary)	To re-appoint KPMG Audit plc as the Company's auditors and to authorise the directors to determine their remuneration		

* Please indicate with an X in spaces provided how you wish your votes to be cast. If you do not do so, the proxy may vote or abstain as he thinks fit on the above mentioned resolutions.

Dated this…………………………………………………….day of…………………………………………………………….2007

Signed…….

Notes
1. To be valid, this proxy, duly completed and signed, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, should be deposited at Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
2. If the member is a corporation, this form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will be determined by the order in which the names stand in the register of members.
4. If you do not indicate how you wish your proxy to vote on any resolution, the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
5. A proxy need not be a member of Company. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting.

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Capita Registrars
Proxy Processing Centre
Telford Road
Bicester
OX26 4LD

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First fold

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of CareTech Holdings PLC will be held at the West Lodge Park Hotel, Cockfosters Road, Barnet, Herts EN4 0PY on 29 March 2007 at 10.00 am for the following purposes:

1. to receive the report of the directors and the audited financial statements for the year ended 30 September 2006;
2. to re-appoint Stewart Wallace as a director of the Company;
3. to re-appoint David Spink as a director of the Company; and
4. to re-appoint KPMG Audit Plc as the Company's auditors and to authorise the directors to determine their remuneration.

By order of the Board

David Spink
Company Secretary

28 February 2006

Leighton House
33-37 Darkes Lane
Potters Bar
Hertfordshire
EN6 1BB

Notes
1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. A form of proxy is attached; the form must be lodged at the office of the Company's registrars not less than 48 hours before the time appointed for the holding of the meeting.
2. The following documents will be available for inspection at the Company's registered office during normal business hours on any weekday (Saturdays and Sundays excluded) from the date of this Notice until the date of the meeting and at the place of the meeting from 9.45 am on 29 March 2007 until its conclusion: (a) the registrar of directors' interests in the capital of the Company, (b) copies of the directors' contracts of service.

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