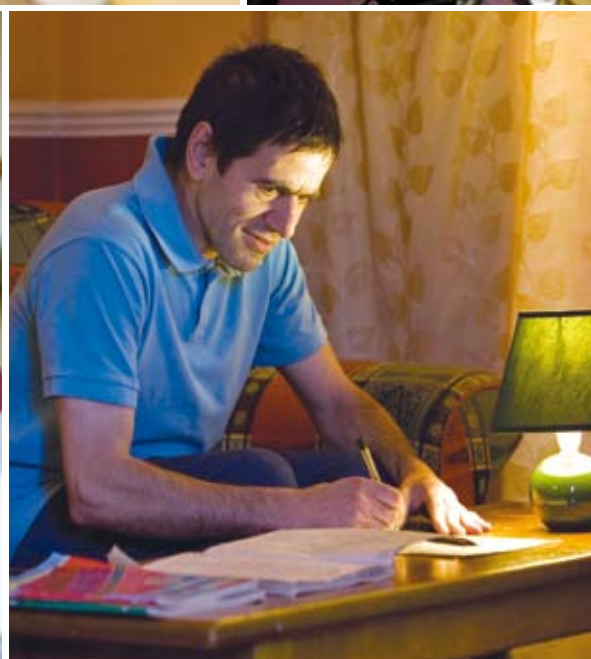


Extraordinary days, every day





Up and ready to go at the start of another busy day for Terry. Terry lives in his own supported tenancy and works part-time for a local retailer. His support workers help him to organise himself for the day ahead.



Leading the way

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

We aim to provide better lives for people with severe physical disabilities, challenging behaviours, mental health problems and autism spectrum disorders, helping them discover greater independence and an improved quality of life.

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

Financial highlights

£67.7m

Revenue increased by 27% (2007: £53.1m)

£17.3m

Adjusted EBITDA¹ increased by 59% (2007: £10.9m)

£10.5m

Adjusted profit before tax² increased by 6.9% (2007: £6.2m)

¹Being operating profit before depreciation, intangible amortisation, exceptional items and share-based payment charge.

²Being profit before tax, intangible amortisation, exceptional administrative and finance costs.

21.6p

Diluted adjusted earnings per share³ up 57% (2007: 13.7p)

£13.7m

Operating cash flow increased 60% (2007: £8.6m)

³Being earnings before intangible amortisation, exceptional administrative and financial costs as a proportion of the weighted number of shares and share options in issue.

Please note: The names of residents and staff members used in this report have been changed to preserve their anonymity.

Operational highlights

279

New beds added in the year; 182 from acquisitions and 97 through organic growth

1,308

Overall resident capacity

95%

Occupancy levels in mature homes with an overall blend across all services of 90% at the year-end

This year's report

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Successfully operating in a market that offers considerable opportunity for growth

Market insights and trends

Operating in a growth market



1.4m

1.4 million people in the UK have a learning disability.

185,000

185,000 are severely disabled and unable to live independently.

85,775

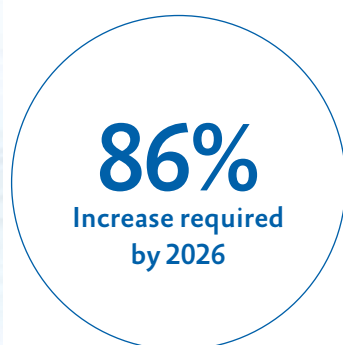
Estimated number of UK residential beds is 85,775.

60,000

60,000 residential PLD care places available in the UK – leaving a shortfall of 25,000.

Source: L&B, Department of Health, Lancaster University.

Fulfilling the market need



► Growth of PLD service users predicted to be 5.5% annually equating to 86% increase by 2026.

► Public sector funding remains strong.

► Increased demand for core PLD and higher complexity services offered by larger, integrated service providers.

► Estimated 25,000 residential places required to meet known demand

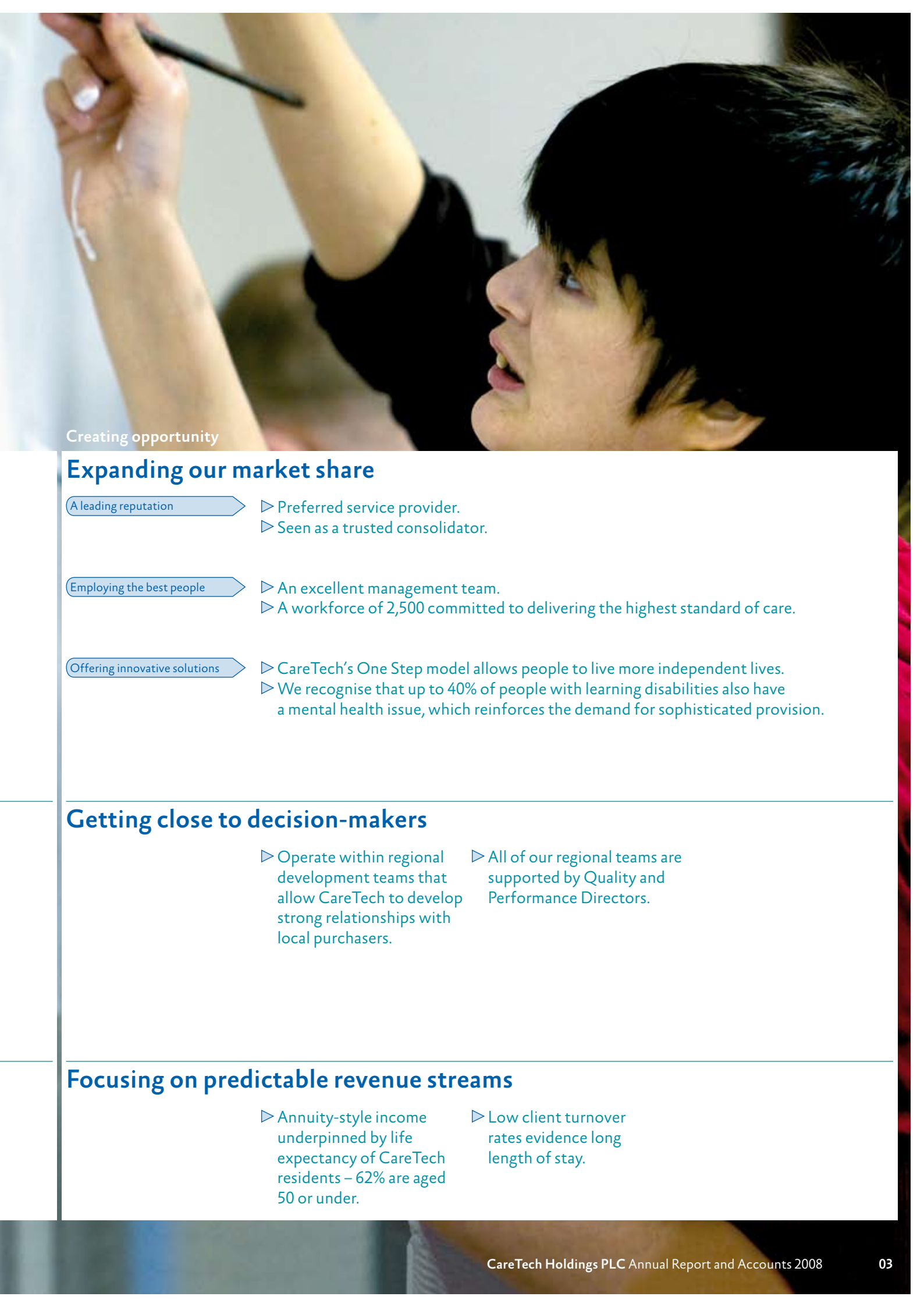
Source: Lancaster University.

Benefiting from government policy and regulation

► Increased outsourcing to private sector to provide improved standards of care.

► Increase in care-led decision making – “Best Value”.

► Smaller operators increasingly unable to comply with tighter regulatory regime of Care Standards Act.



Creating opportunity

Expanding our market share

A leading reputation

- ▶ Preferred service provider.
- ▶ Seen as a trusted consolidator.

Employing the best people

- ▶ An excellent management team.
- ▶ A workforce of 2,500 committed to delivering the highest standard of care.

Offering innovative solutions

- ▶ CareTech's One Step model allows people to live more independent lives.
- ▶ We recognise that up to 40% of people with learning disabilities also have a mental health issue, which reinforces the demand for sophisticated provision.

Getting close to decision-makers

- ▶ Operate within regional development teams that allow CareTech to develop strong relationships with local purchasers.
- ▶ All of our regional teams are supported by Quality and Performance Directors.

Focusing on predictable revenue streams

- ▶ Annuity-style income underpinned by life expectancy of CareTech residents – 62% are aged 50 or under.
- ▶ Low client turnover rates evidence long length of stay.

A track record for providing the most comprehensive range of services and support

Offering a comprehensive range of services

CareTech provides a comprehensive range of services and individual support to disabled people, focusing mainly, but not exclusively, on people with learning disabilities. This wide spectrum of provision helps us tailor the support we provide and to meet individual need more precisely.

Our quality assurance team comprises social workers and care professionals who have previously been CSCI inspectors. The team works with user groups,

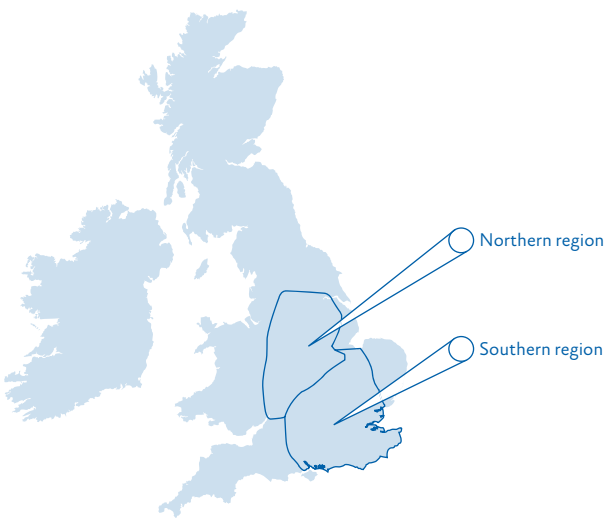
including external groups to ensure our services remain first class and develop in line with best practice. The team is also closely involved in service development and routine internal inspections.

CareTech is a strongly principled and ethical service provider. We operate services that are comprehensively user centred, engaging everyone concerned and empowering the person we are supporting. Our buildings are exceptional but it is the quality of our staff and what they do on a day to day level that gives us our reputation as an outstanding provider.

We are proud to be working hard on our carbon footprint through initiatives such as recycling, ethical purchasing and tree planting schemes that help offset our use of paper. As an ethical provider we aim to offer first class support while keeping “best value” at the forefront of our planning. We are well known for our individually tailored plans that offer exceptional service while maintaining outstanding value for local authority purchasers and increasingly for people who purchase their own support programmes.

The success of our service provision and quality of the portfolio is exemplified through high levels of occupancy and lengths of stay, which provides the business with a highly visible and secure income stream.

The occupancy of our mature homes consistently runs at 95% of capacity across the portfolio of services, with occupants staying with us for decades on average.



196

Number of care homes

229

Number of daycare places

444

Northern region beds

864

Southern region beds

Services

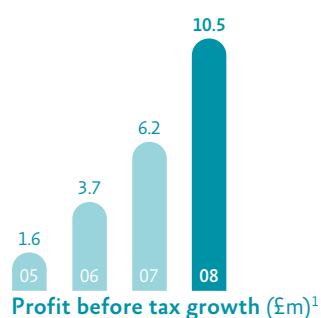
- ▷ Adult social care
- ▷ Child residential services
- ▷ Transition services
- ▷ Independent supported living
- ▷ Community 1:1 support
- ▷ Day care
- ▷ Residential homes
- ▷ Nursing homes



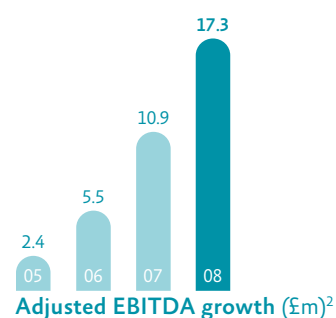
Delivering a strong track record of growth



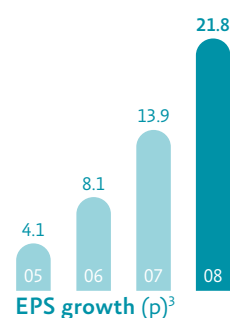
+46%



+87%



+93%



+74%

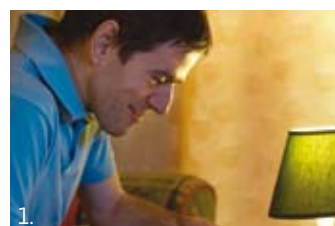
¹Being profit before tax, intangible amortisation, exceptional administrative and finance costs.

²Being operating profit before depreciation, intangible amortisation, exceptional items and share-based payments.

³Being earnings before intangible amortisation, exceptional administrative and financial costs as a proportion of the weighted number of shares in issue.

Since listing on the London Stock Exchange CareTech have continued to meet and exceed market expectations and have attracted a blue chip institutional shareholder base. Through a combination of strong organic growth and strategic acquisitions the Group delivers EBITDA margin growth whilst being a leading consolidator of the market in which it operates.

The growth has been underpinned by secure and highly predictable operating cash flow together with a strong asset backed balance sheet.



1.



2.



3.



4.

1. A moment of peace and quiet at home.
2. Discussing some up and coming life events with one of CareTech's skilled counsellors.
3. Making healthy choices for tonight's dinner.
4. A session on Facebook – keeping in touch with friends.



A leading business

I am pleased to report that CareTech has had another excellent year with significant growth in revenues and underlying earnings. CareTech continues to be a market leader in the provision of creative “person-centred” services. During the year we have developed our care pathways approach and strengthened our clinical expertise to ensure that we continue to expand the range of services we offer.

— Farouq Sheikh, Chairman

3.75p

Full year dividend (2007: 3.0p)

2,500+

Number of employees

Results

The results to 30 September 2008 demonstrate further significant growth with revenues 27% up at £67.7m and adjusted EBITDA 59% up at £17.3m.

Profit before tax, intangible amortisation and exceptional items increased by 69% to £10.5m. Adjusted diluted earnings per share increased by 57% to 21.6p. Profit before tax increased by 34% to £7.7m (2007: £5.7m) and diluted basic earnings per share were 13.5p (2007: 12.4p).

Growth and market opportunity

The Group has recorded further capacity growth in the year, adding a further 279 beds in total. Organic growth was 97 beds, including the development of services in new geographic areas of Portsmouth, Milton Keynes, Leicester and Essex.

Our markets remain extremely fragmented and we have made further progress in our strategy of making selective acquisitions. In the year we made 2 acquisitions adding a further 182 beds to our capacity. The second acquisition, Valeo, gave us access to the market opportunities in the Yorkshire conurbations.

A stronger capital base

The Group has strengthened its balance sheet during the year as a result of the additional bank debt facilities agreed in April (giving the Group facilities of £120m) and through the £30m equity placing which was

successfully concluded in July. The Group has a valuable base of freehold assets and considerable headroom in its debt facilities.

Dividend

In July 2008 we announced an interim dividend to shareholders of 1.025p per share (2007: 1.0p). Given the strong performance of the Group together with our confidence in the Group's future prospects the Board is recommending a final dividend of 2.725p per share subject to approval by shareholders at the forthcoming Annual General Meeting. The total dividend per share is therefore 3.75p (2007: 3.0p), an increase of 25% and the Board will look to continue growing dividends, whilst maintaining a dividend cover appropriate to meet the Group's growth objectives.

Employees

The success of the Group is based on the quality and commitment of its employees. Our workforce has grown in line with our expansion and we now employ more than 2,500 people on either a full time or a more flexible basis. The Board recognises the contribution made by all employees and I would like to thank them for their hard work during the year.

Board appointments

We reported in October that Christa Echte has joined the Board as a non-executive director. We also announced earlier this year that David Spink will be retiring from CareTech having

been Finance Director for 6 years. During these formative years, David's dedication and contribution to the business has been significant and the Board would like to thank him and wish him well in his retirement. I am delighted to confirm that David Pugh joined the Board as an executive director with effect from today and will become Finance Director once David Spink formally steps down later in the month.

Outlook

The performance of the underlying business remains strong with good growth and improved profitability. The successful integration of Beacon Care and Valeo, together with the acquisitions from 2007 creates a solid foundation for the continued development of innovative services enabling us to provide a wider, high quality offering to care commissioners. Our markets remain highly fragmented and we continue to progress our strategy of being a market consolidator.

I look forward to reporting further progress in 2009 and remain confident that CareTech is well positioned to sustain its success.

Farouq Sheikh
Chairman
9 December 2008

Jane working on her laptop
at the resource centre.
Computers have proved invaluable
as tools for learning new skills and
for fun.





Executing our strategy

2008 has been another year of significant achievement and our financial statements reflect the continuing progress that we have made.

— Haroon Sheikh, Chief Executive Officer

5.5%

Expected rise in people with disabilities

86%

Uplift in learning disability user population by 2026

Business fundamentals

CareTech is an increasingly influential operator in its markets. Its business model benefits from the following key fundamentals:

- the core market for people with a learning disability is large and continuing to grow;
- the market remains highly fragmented with the majority of places being provided by small independent operators with 3 or less homes;
- CareTech's service users are predominantly quite young and CareTech expects to retain its clients for many years. Visibility of future revenue streams remains very high; and
- the business is efficiently operated and is cash generative in nature.

Business development has been predicated on an accepted annual growth of 1% in the population of learning disabled people. This was adjusted to show higher growth among those with a greater need for support. Research this year by academics at Lancaster University has shown that this figure seriously understates the expected rise in people with learning disability who are likely to require care and support. Current estimates predict growth in a range up to 5.5% annually. The researchers say that this equates

to 86% uplift in the learning disability user population by 2026. We are already planning our business response to this research and anticipate renewed demand for a wide spectrum of services in the medium and longer term.

We are increasingly aware of the complex psychological needs of our service users and it has been estimated by the charity MIND that up to 40% of people with learning disabilities will have an additional mental health problem. The complex need that we observe, and anticipate for the future, reinforces the demand for sophisticated provision, embracing innovative service responses.

Strategic objectives

Our strategy for growth within the PLD sector continues unchanged and is characterised by our commitment to provide first class services to people with a learning disability. We continue to develop our person-centred approach in conjunction with the evolving commissioning strategies and offer commissioners solutions by way of services for:

- (i) residential care
- (ii) supported living schemes
- (iii) day centre activities
- (iv) care of disabled children
- (v) transition services for school and college leavers

Growth in the year

2008 has been another year of significant growth in our client capacity, adding 279 client places, bringing our total to 1,308 places. The growth reflects a balance between organic development and selective acquisition.

Organic development

During the year we have added 97 beds through organic development, including both residential and supported living services. These developments are mainly in areas of existing coverage, but include new opportunities in Milton Keynes, Leicester, Portsmouth and Essex. Organic development remains an essential element of our growth objectives and we have strengthened our regional teams in respect of property purchasing and refurbishment in order to underpin further progress.

Acquisitions

It is pleasing to note good full year performances from those acquisitions made in 2007. The Counticare residential services are now fully integrated into our operations in the South and provide us with important management and day centre facilities. The One Step supported living model is beginning to roll out across our network and commissioners find its pathways approach to be very appealing.



John, concentrating hard on some artwork during a busy day at home. Art and crafts are essential for developing fine movement skills and as a release for creative energy.



Terry enjoying some healthy choices
at one of the town's lively shops.
Like everyone else, people living
in their own supported tenancies
have to know about shopping
for good food and best value.

12:03

Staffordshire





The Executive Team (from left to right)
Andy Lee, Will Fenning, Stephen Unsworth,
Alan Thomas, Joan Bone, Greg Lapham,
Haroon Sheikh, Graham Lewis,
Stewart Wallace, Phil Owen, David Pugh,
John Johnson.

A leading reputation

Employing the best people

Offering innovative solutions

Reputation as a leader

- One of the earliest companies offering support to people with learning disability, CareTech is viewed as a leading provider.
- Unusually, CareTech has pioneered new services and innovative solutions to the challenges faced by very disabled people trying to live normal lives. This includes the support of people with early onset dementia, new forms of independent supported living and outward-looking residential care.

During the year we made 2 further acquisitions:

Beacon Care

In April 2008, we purchased 17 homes which trade as Beacon Care for a total of £20.8m plus acquisition costs. These homes are mainly situated in the South of England and have integrated well with our existing services in that area. Beacon Care has brought valuable business development resource and the management team is focused on further growth for both residential care and supported living services.

Valeo

In June 2008, we purchased Valeo for a total consideration of £11.2m plus acquisition costs. Valeo is an exciting opportunity based in Yorkshire providing services to clients with challenging needs. We see this as a springboard acquisition from which we can build a substantial client base, from both organic development and further acquisition in this area.

High quality service provision

We remain strongly focused on the quality of services that we provide and we have further strengthened our regional teams through the leadership of our Quality and Performance Director.

Our services are increasingly tailored to meeting the needs of highly demanding service users and people with very complex support needs. Meeting the challenges this presents and continuing to deliver the CareTech quality brand means that we will strengthen our clinical infrastructure through the coming year.

In addition to the demand for high quality direct services, local authorities are increasingly keen to measure companies ethical and green credentials. We have wholeheartedly embraced this agenda, building on an established track record as a company with integrity in service provision.

Pathway of services

Commissioners have become very focused on effective service delivery that reduces dependency – “the pathway”. Anticipating

this trend, we have established innovative services that equip our clients with the skills required to live more independently; moving wherever possible into supported living units using the One Step model. This is also an issue for young people preparing to leave school or college and who, like other young people, must be prepared for a home of their own.

Of course, many of the people we support will always need an intensive care and support programme and we shall continue as a provider of high quality lifelong services for them. However, with our commissioning partners we have an optimistic view and an active support programme that delivers the pathway to enhanced independence that everyone aspires to achieve.

Financial performance

The financial statements to 30 September 2008 again demonstrate significant progress. Revenues are up 27% at £67.7m, adjusted EBITDA is up 59% at £17.3m and underlying profit before tax (being profit before tax, non-recurring items and amortisation) is up 69% at £10.5m.

Outlook

The opportunities for the creation of new services are considerable. There remains a significant shortfall of capacity for people with a learning disability and commissioners are eager to work with trusted partners, capable of delivering innovative, person-centred solutions. Our regional development teams have better relationships with local purchasers and we are in a strong position to continue to grow the business.

Conclusion

2008 has been another extremely successful year for CareTech and I would like to add my thanks to all our staff for their achievement this year. I also welcome the staff that are now part of CareTech as a result of the Beacon Care and Valeo acquisitions. On a personal note I would also like to offer my thanks to David Spink for his contribution to our success since IPO.

Haroon Sheikh
Chief Executive Officer
9 December 2008



Margaret preparing afternoon tea for herself and visiting friends
Margaret chooses to live in an exceptional flat within a residential home, having her preferred mix of independence with the social benefits of group living.



Strong financial performance

The Group has performed well in the year, with solid results from underlying core activities, strong full year performance from the acquisitions made in 2007 and stronger than forecast contributions from the acquisitions made in the year.

Overview

The Group has good cash flow performance and an increasingly strong base of freehold assets. The additional debt facilities negotiated in the year, together with the successful equity placing in July give the Group a significant platform for further growth, both organic and through selective acquisition.

Revenue and operating profit

Revenue increased by 27% to £67.7m, including £4.6m from the Beacon Care and Valeo acquisitions. For core activities therefore the uplift was 19%.

Adjusted EBITDA of £17.3m was up 59% from £10.9m in 2007. This represents a margin of 25.5% compared with 20.5% in 2007 and is reflective of the efficiencies achieved as a result of the Group's operational gearing. Underlying operating profit (i.e. before non-recurring items and amortisation) increased by 59% to £15.8m, including a contribution from the new acquisitions of £1.4m.

Excluding the acquisitions the operating profit uplift was 44%. Operating profit increased by 58% to £14.8m.

Administrative expenses, including intangible amortisation of £0.2m (2007: £0.1m) increased to £5.7m (2007: £4.8m), reflecting the full year effect of the regional structure which was established in 2007.

Exceptional operating items

The financial statements reflect the cost of certain non-recurring costs attributable to the integration of the Beacon Care and Valeo acquisitions, together with business restructuring costs attributable to the development of an "in-house" recruitment and staff management centre for agency and flexible working staff. Total operating exceptional costs are £751,000, comprising acquisition integration costs of £456,000 and business restructuring costs of £295,000. The tax effect of these costs amounts to £218,000.

Financial expenses

In April 2008, the Group concluded an increased term loan and revolving debt facility of £120m. As a result of the new facility, exceptional costs of £1.9m have been written off, as set out in note 4.

Taxation

The provision for taxation is explained in note 7. The Group's underlying tax rate in the year was 20.1% (2007: 19.1%) which is lower than the standard rate due to the benefit of capital allowances. As a consequence of reporting under IFRS, deferred taxation has been provided on this benefit to produce a headline rate of tax of 31%, which represents the standard rate of tax, adjusted for permanently disallowed expenses.

Earnings per share

Basic earnings per share have increased from 12.6p in 2007 to 13.7p in 2008. Basic earnings per share before exceptional items and amortisation have increased from 13.9p to 21.8p and from 13.7p to 21.6p on a fully diluted basis.

Dividend

During the year the Group made an interim dividend payment to shareholders of 1.025p per share (2007: 1.0p). The directors are proposing the payment of a final dividend of 2.725p per share (2007: 2.0p), subject to approval by shareholders at the Annual General Meeting.

Cash flow and net debt

The operating cash flows of the Group remain strong with net operating inflows at £13.7m (2007: £8.6m). Cash outflows

from investing activities amounted to £49.2m, partly funded by operating cash flow, together with further utilisation of debt facilities of £14.4m and net proceeds from the issue of share capital of £29.0m. At 30 September 2008, net debt was £85.3m (2007: £70.4m), against facilities of £120m.

The balance sheet reflects £8.4m of deferred and contingent consideration in respect of acquisitions, which are payable within 12 months.

The Board believes that the Group's continuing strong operational cash flows will enable it to fund significant organic investment within the Group and provide further headroom to capitalise on acquisition opportunities.

A leading reputation

Employing the best people

Offering innovative solutions

We are proud of our people

- The care and support of people with learning difficulties is never an easy option for staff.
- We train our people with the skills to do a first class job. However it's the spirit and goodwill behind this training that results in exceptional services.
- Our annual top team awards are always heart warming as individual success stories emerge from across the company.



The homework has to be finished before Greg goes out to see friends. Greg attends college 3 days a week, continuing his education and especially his understanding of words and numbers.



A leading reputation

Employing the best people

Offering innovative solutions

Creating individual solutions

- Each person supported by CareTech has an individual support plan specified by them with contributions from family, friends, staff and professionals. These plans embrace the dreams and aspirations of the people we support as well as the measured considerations of their professional care network.
- During 2008, a team of staff and service users have made further improvements to the support planning system.

+5%

During the year the EBITDA margin increased 5% from 20.5% to 25.5%.

As a matter of course, the Board regularly monitors the cost of maintaining unutilised debt facilities within the context of its overall strategic plans. As such the Company may, in the near term, adjust its banking arrangements in order to avoid incurring unnecessary financing costs where facilities are not likely to be used.

The Company's unique and compelling business model means that alongside its strong organic growth, it will inevitably continue to identify sector consolidation opportunities that have the potential to deliver long-term benefits to shareholders. Naturally, the Board will continue to ensure that the Company has access to the most appropriate capital so that it can take full advantage of such strategic opportunities as and when they arise.

Key performance indicators

The Group uses the following financial and non-financial key performance indicators to measure the operational and strategic performance of the business.

(i) Earnings before interest, tax, depreciation and amortisation (EBITDA)

The Group monitors the progress of each home through the measurement of its operating contribution against its targets.

This combines with the cost of central operational management to reflect EBITDA. During 2008, the EBITDA margin increased from 20.5% to 25.5%, reflecting the increasing economies of scale within the Group.

(ii) Earnings per share (EPS)

The primary performance indicator is the Group's earnings per share. Our strategic objective is to increase earnings per share each year through organic growth of the core business and through acquisitions. The 2008 results show improved basic and diluted earnings per share.

(iii) Occupation levels

All homes are closely monitored to achieve the appropriate balance between full occupation and client compatibility (which is required for long-term occupation). During the year we maintained occupation levels in mature services (being homes open for more than 12 months) at 95% with an overall blend across all services at the year end of 90%.

International financial reporting standards ("IFRS")

The Group is reporting its full year results for the first time under adopted IFRS. Conversion to IFRS is an accounting change and has no effect on cash flows or debt position. The conversion also has no effect on the underlying business, on risk management or the Group's strategy.

The main accounting changes and their impact of the accounts are as follows:

Goodwill and intangible assets

The Group has identified intangible assets acquired as part of the acquisitions since 1 October 2006. These are amortised over their economic life of between 5 and 15 years. The amortisation charge for the year was £218,000. Goodwill is no longer amortised.

Accounting for deferred tax

As required by IAS 12, the Group has made full provision for deferred tax arising on the fair value adjustments to properties acquired and the benefit of accelerated capital allowances. The deferred taxation is shown in the balance sheet at £13.1m and the deferred tax shown in the consolidated income statement is £738,000.

Accounting for the fair value of financial instruments held for hedging bank debt

As required by IAS 39, the Group is required to recognise derivative financial instruments at their fair value at the balance sheet date. Movements in these fair values are taken either through reserves or to the consolidated income statement according to the criteria in IAS 39.



David Spink
Finance Director
9 December 2008

Farouq Sheikh
Executive Chairman
(aged 50)



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 Disabilities sector.

Haroon Sheikh BSc
Chief Executive Officer
(aged 52)



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.

David Spink ACA
Finance Director
(aged 52)



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.

Stewart Wallace
Corporate Development
Director
(aged 59)



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.

Dr Richard Steeves
Non-executive Deputy
Chairman
(aged 46)



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.

Karl Monaghan
Non-executive Director
(aged 46)



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

Christa Echtle
Non-executive Director
(aged 50)



Christa studied at the University of Wurzburg, Germany, where she gained a BA in Sociology and an MA in Psychology. She is a psychotherapist and was responsible for the establishment of Reed Healthcare, culminating in her leading the demerger from Reed Executive and, full listing on the London Stock Exchange in 2003. More recently Christa has undertaken various Chairman roles for companies with venture capital backing.

David Pugh BSc.
Econ(Hons), AMCT, FCA
Deputy Finance Director
(aged 47)



After graduating from Cardiff University with an honours degree in economics, David qualified as a chartered accountant with KPMG in 1986 and then joined one of the largest operating divisions of Courtaulds PLC. In 1993 he qualified as a member of the Association of Corporate Treasurers. Since 1993 David has been finance director in a number of multinational PLC's delivering strong growth both organically and by acquisition, including businesses within the support services sector for the past 12 years.

David joined CareTech in August 2008 from FTSE-250 quoted Carillion PLC. As Finance Director he becomes responsible for the Group's financial matters, information technology and commercial support. He also becomes Company Secretary.

The directors present their report and the audited Group financial statements for the year ended 30 September 2008.

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 consolidated income statement detailed on page 24 sets out the results for the year.

The Chairman's Statement, Chief Executive's Statement and Business Review and the Finance Director's Review report on the performance of the Group during the year ended 30 September 2008 and its prospects for the future. These are incorporated into this report by reference.

Key performance indicators are set out in the Financial highlights on page 1 and in the Key Performance Indicators section of the Finance Director's Review. 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. The Board is therefore responsible for establishing a coherent framework for the Group to manage risk, which is designed to identify, manage and mitigate business risk. Summarised below are what the Board consider to be potential risks to the Group. More detailed information on the financial risks is presented in the Finance Director's Review.

Price and margin pressure

The market is competitive and care commissioners are seeking effective client placements which represent value for money. The Group's strategy to counteract this is to continue to focus on providing high quality person-centred services at fee levels which are price competitive in the market.

People skills and dependency

As a care services provider, the Group is dependent on the skills of all staff. The Group aims to offer appropriate remuneration and incentive packages to all staff members, including participation in its share option and save as you earn share schemes.

Service standards

All of the Group's contracts are with government bodies and many of its services are subject to regulation by the Commission for Social Care Inspection and OFSTED. The Group mitigates risks arising from poor service standards by regular audit from an internal quality and performance team.

Health and safety

Due to the nature of the Group operations, an independent adviser monitors health and safety risk in conjunction with the quality and performance team, to ensure that Company policies are adhered to.

Disaster recover policy

The Board has developed an IT disaster recovery procedure.

Financial risk management

Financial risk management is addressed in the Finance Director's Review on page 13.

Dividends

Dividends of £383,310 and £731,921 (total £1,115,231) have been paid during the year. The directors propose a final dividend of 2.725p per share (2007: 2.0p) subject to approval at the forthcoming Annual General Meeting.

Charitable and political donations

No direct 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 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 23 to the financial statements.

Going concern

After making appropriate enquiries the directors have reasonable expectations that the Company and Group have 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.

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.

The number of days' purchases ("creditor days") outstanding for payment by the Group at the year-end was 12 days (2007: 21.0 days). The Parent Company 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 them on a regular basis so that their views 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.

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 approved at the Extraordinary General Meeting dated 7 July 2008, 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 equity securities for cash (within the meaning of Section 94(2) to 94(3A)) 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 meeting accompanying this report.

Substantial shareholdings

As at 9 December 2008, 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 20.

	No. of shares	Percentage
Carmignac Geston	3,954,957	8.9%
Black Rock	3,084,843	6.9%
Old Mutual Asset Managers (UK) Limited	2,281,752	5.1%
Aegon Asset Management UK plc	2,278,072	5.1%
Global Asset Management	2,117,263	4.8%
UBS Global Asset Management (UK) Limited	1,607,777	3.6%

Share options

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

Options granted under the above schemes, together with those remaining at 30 September 2008 are as follows:

Date of grant	Scheme	Options granted	Options Lapsed	Options Remaining 30 September 2008	Option price (pence)
13 October 2005	Approved Scheme	627,375	(268,319)	359,056	169
7 November 2005	SAYE Scheme	186,033	(44,824)	141,209	136
2 August 2006	Approved Scheme	52,427	(33,491)	18,936	292
2 August 2006	Unapproved Scheme	8,220	–	8,220	292
17 January 2007	Approved Scheme	162,885	(77,076)	85,809	345
17 January 2007	Unapproved Scheme	18,263	–	18,263	345
21 March 2007	Approved Scheme	6,077	–	6,077	452
2 February 2008	SAYE Scheme	101,397	(9,027)	92,370	440
2 May 2008	Approved Scheme	114,070	(1,485)	112,585	410
2 May 2008	Unapproved Scheme	23,843	–	23,843	410

All options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary.

Details of directors' share options are given on page 21.

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 Board considers that Richard Steeves, Karl Monaghan, Christa Echtle and Richard Midmer have all acted as non-executive directors and that Richard Steeves, Karl Monaghan and Christa Echtle may be considered as independent for the purposes of the Combined Code.

Richard Steeves is the senior independent non-executive director.

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 Karl Monaghan (Chairman), Farouq Sheikh, Richard Steeves and Christa Echtle. 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 and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non audit services. Details of the amount paid to the external auditors during the year, for audit and other services are set out in note 3 to the financial statements.

The Remuneration Committee comprises Richard Steeves (Chairman), Karl Monaghan and Christa Echtle 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 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.

Directors

The names of the current directors together with brief biographical details are shown on pages 16 and 17.

In accordance with the articles of association, Richard Steeves and Haroon Sheikh retire by rotation and, being eligible, offer themselves for reappointment. Haroon Sheikh has a service contract which is terminable by the Company on not less than 12 months' notice. Richard Steeves has a service contract which is terminable by the Company on not less than 3 months' notice. Following formal performance evaluation, the Chairman has confirmed that Richard Steeves' performance continues to be effective and demonstrates commitment to the role.

Having been appointed since the previous Annual General Meeting, Christa Echte and David Pugh offer themselves for reappointment. Christa has a service contract which is terminated by the Company on not less than 3 months' notice and David Pugh has a service contract which is terminable by the Company on not less than 12 months' notice.

The names of all directors who held office in the year are disclosed on page 60.

The Annual General Meeting will be attended by all directors, and shareholders are invited to ask questions during the meeting and to meet with all directors after the formal proceedings have ended. The Group has regular discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the interim and the annual results with the Group's largest institutional shareholders on an individual

basis. In addition, the Group responds to individual ad-hoc requests for discussion from shareholders.

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.

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' 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 2008 Number of Ordinary 0.5p Shares	30 September 2007 Number of Ordinary 0.5p Shares
Westminster Holdings Limited ¹	10,422,500	13,272,500
Cosaraf Trust ²	2,060,000	–
Cosaraf Pension Fund ³	20,000	–
Farouq Sheikh	485,000	–
Haroon Sheikh	485,000	–
Stewart Wallace	466,500	1,186,250
Autovibe Limited ⁴	319,750	–
Mills & Reeve Trust Corporation Limited ⁵	680,000	–
David Spink	–	880,000
Richard Steeves	15,625	15,625
Karl Monaghan	31,250	31,250
Christa Echte	–	n/a

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, Corporate Development Director. Shares owned by Wendy Wallace were transferred to Autovibe Limited on 3 April 2008.

⁵ Mills & Reeve Trust Corporation Limited is a company owned by a trust, the beneficiaries of which are David and Christina Spink. Shares owned by David and Christina Spink were gifted to the company on 3 April 2008.

Conflicts of Interest

At the Annual General Meeting held on 23 February 2008, amendments to the Company's Articles of Association were approved to reflect certain provisions of the Companies Act 2006 relating to conflicts of interest that came into force on 1 October 2008, enabling the Board to authorise conflicts or potential conflicts of interest.

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 is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that procedures have been followed.

Attendance at meetings

The directors attended the following meetings in the year to 30 September 2008.

	Board	Audit Committee	Remuneration Committee
Farouq Sheikh	10	2	–
Richard Steeves	9	2	2
Haroon Sheikh	10	–	–
David Spink	10	–	–
Stewart Wallace	9	–	–
Richard Midmer (resigned 8 July 2008)	6	1	1
Karl Monaghan	9	2	2

The Board, led by the Chairman, undertakes an informal evaluation of the performance of the Board, its principal committees and individual directors with particular attention paid to those who are due for re-appointment. This evaluation takes the form of a discussion with reference to the minutes of relevant meetings during the year under review.

Executive directors' remuneration

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

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

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

Information forming part of the financial statements

The information set out in (a) and (b) below forms part of the Financial Statements.

(a) Directors' emoluments

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

	Salary & fees		Benefits		Annual bonus		Total		Pension	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Year to 30 September										
Current Directors										
Farouq Sheikh	233	187	21	20	30	30	284	237	8	33
Haroon Sheikh	185	126	13	12	43	43	241	181	6	38
David Spink	123	95	12	12	27	27	162	134	8	5
Stewart Wallace	72	70	12	12	18	17	102	99	6	3
Richard Steeves	35	30	–	–	–	–	35	30	–	–
Karl Monaghan	28	27	–	–	–	–	28	27	–	–
Christa Echte	–	–	–	–	–	–	–	–	–	–
Former Directors										
Richard Midmer	22	27	–	–	–	–	22	27	–	–
Graham Mattinson	–	50	–	8	–	–	–	58	–	2
Total	698	612	58	64	118	117	874	793	28	81

(b) Directors' share options

Stewart Wallace holds options over 6,875 (2007: 6,875) ordinary shares of 0.5p in the Company's Save As You Earn Scheme with an exercise price of £1.36.

(c) Call option agreements

During the year to 30 September 2008, the Company has been party to two call option agreements dated 7 October 2005 between the CareTech Holdings Employees' Share Trust ("the Trust") and each of David Spink and Stewart Wallace ("the Shareholders"). The call option agreements are in identical form and are as set out below.

Pursuant to each call option agreement, each of the Shareholders granted to the Company a series of call options over certain of the ordinary shares they hold in the Company. The number of shares over which the options are exercisable reduces over a 3-year period from 12 October 2005, so that after 2 years and 1 day, two thirds of the relevant shares are no longer subject to the option and after 3 years and 1 day, the options drop away entirely. During the life of the options, the Shareholders cannot sell the ordinary shares which are subject to options.

In the event that the Shareholder ceases to be a director and/or an employee of the Company, the Trust has the option to purchase the specified number of ordinary shares from the Shareholder.

The number of ordinary shares subject to the call option agreements during the year is as follows:

	At 1 October 2007	Options lapsed 12 October 2007	At 30 September 2008
David Spink	383,250	(191,625)	191,625
Stewart Wallace	383,250	(191,625)	191,625

On 12 October 2008, being the 3rd anniversary of the Company's admission onto AIM, call options in respect of a further 191,625 ordinary shares lapsed in respect of each of David Spink and Stewart Wallace and no call options are existent beyond that date.

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 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 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.



D Spink
Company Secretary
9 December 2008

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

The directors are responsible for preparing the Directors' Report and the Group and Parent Company 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 applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs, as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company. 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, 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 Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its 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 Group to prevent and detect fraud and other irregularities.

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.

We have audited the Group and Parent company financial statements, (the "financial statements") of CareTech Holdings PLC for the year ended 30 September 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and Company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out herein.

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 Directors' Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements in accordance with the applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 22.

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 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 Statement and Business Review and the Finance Director's Review that is cross-referenced from the Business review and future developments section of the Directors' Report.

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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 September 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 30 September 2008;
- 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
9 December 2008

2 Cornwall Street
Birmingham
B3 2DL

Consolidated Income Statement for the year ended 30 September 2008

	Note	2008			2007		
		Before other items £000	Non-recurring and other items £000	Total £000	Before other items £000	Non-recurring and other items £000	Total £000
Revenue		67,713	–	67,713	53,119		53,119
Cost of sales		(47,196)	–	(47,196)	(38,830)	(100)	(38,930)
Gross profit		20,517	–	20,517	14,289	(100)	14,189
Administrative expenses		(4,732)	(969)	(5,701)	(4,375)	(441)	(4,816)
Operating profit		15,785	(969)	14,816	9,914	(541)	9,373
EBITDA		17,254	–	17,254	10,879	–	10,879
Depreciation	10	(1,356)	–	(1,356)	(878)	–	(878)
Amortisation of intangible assets	11	–	(218)	(218)	–	(76)	(76)
Goodwill adjustment		–	–	–	–	(157)	(157)
Share-based payments charge	18	(113)	–	(113)	(87)	–	(87)
Exceptional items	4	–	(751)	(751)	–	(308)	(308)
Operating profit		15,785	(969)	14,816	9,914	(541)	9,373
Financial income	6	71	–	71	62	–	62
Financial expenses	4, 6	(5,318)	(1,915)	(7,233)	(3,741)	–	(3,741)
Profit before tax		10,538	(2,884)	7,654	6,235	(541)	5,694
Taxation	7	(2,122)	(261)	(2,383)	(1,192)	67	(1,125)
Profit for the year attributable to equity holders of the parent		8,416	(3,145)	5,271	5,043	(474)	4,569
Earnings per share							
Basic	8	21.82p		13.67p	13.89p		12.59p
Diluted	9	21.58p		13.52p	13.73p		12.44p

Consolidated Statement of Recognised Income and Expense
for the year ended 30 September 2008

	2008 £000	2007 £000
Effective portion of changes in fair value of cash flow hedges	(359)	(201)
Net change in fair value of cash flow hedges transferred to profit or loss	564	–
Deferred tax on hedge reserve movement	(61)	60
Deferred tax on share-based payment	–	204
Net income recognised directly in equity	144	63
Profit for the year	5,271	4,569
Total recognised income and expense attributable to equity holders of the parent	5,415	4,632

Consolidated Balance Sheet at 30 September 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	10	148,576	88,008
Other intangible assets	11	1,149	948
Goodwill	11	15,574	11,674
		165,299	100,630
Current assets			
Trade and other receivables	13	11,433	8,394
Cash and cash equivalents	14	2,126	1,093
		13,559	9,487
Total assets		178,858	110,117
Current liabilities			
Loans and borrowings	15	350	431
Trade and other payables	16	3,981	3,244
Tax payable		3,208	2,051
Financial instruments	23	1,264	205
Deferred and contingent consideration payable		8,361	–
Deferred income		7,792	7,213
		24,956	13,144
Non-current liabilities			
Loans and borrowings	15	87,089	71,035
Deferred tax liabilities	17	13,102	8,693
		100,191	79,728
Total liabilities		125,147	92,872
Net assets		53,711	17,245
Equity attributable to equity holders of the parent			
Share capital	19	223	183
Share premium	20	38,543	9,569
Merger reserve	20	5,037	1,998
Hedging reserve	20	–	(144)
Retained earnings	20	9,908	5,639
Total equity		53,711	17,245

These financial statements were approved by the Board of directors on 9 December 2008 and were signed on its behalf by:



F. Sheikh
Director



D. Spink
Director

Consolidated Cash Flow Statement
for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Cash flows from operating activities			
Profit before tax		7,654	5,694
Adjustments for:			
Financial income		(71)	(62)
Financial expenses		7,233	3,741
Depreciation	10	1,356	878
Amortisation	11	218	76
Share-based payment expenses		113	87
Interest received		71	62
Tax paid		(670)	(369)
Operating cash flows before movement in working capital		15,904	10,107
(Increase) in trade and other receivables		(2,160)	(3,826)
(Decrease)/Increase in trade and other payables		(38)	2,288
Net cash from operating activities		13,706	8,569
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	(30,637)	(23,927)
Acquisition of property, plant and equipment		(18,181)	(15,667)
Acquisition of software	11	(419)	–
Net cash from investing activities		(49,237)	(39,594)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)		29,012	–
Proceeds from new loan (net of costs)		96,454	34,903
Interest paid		(5,318)	(3,717)
Repayment of borrowings		(82,024)	–
Payment of finance lease liabilities		(445)	(184)
Dividends paid	21	(1,115)	(362)
Net cash from financing activities		36,564	30,640
Net increase/(decrease) in cash and cash equivalents		1,033	(385)
Cash and cash equivalents at 1 October		1,093	1,478
Cash and cash equivalents at 30 September	14	2,126	1,093

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 2008 comprise the Company and its subsidiaries (together referred to as the “Group”). 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 9 December 2008.

2. Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

The Group financial statements have been prepared for the first time and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP, these are presented on pages 53 to 59.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 October 2006 for the purposes of the transition to Adopted IFRSs.

The only applicable standard endorsed, not yet effective, was IFRS 8 “Operating Segments” which was not adopted early by the Group in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

(b) Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 28.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- business combinations – business combinations that took place prior to 1 October 2006 have not been restated; and
- share-based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 October 2006.

(c) Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

(d) 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.

(e) Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following 2 conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company’s own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company’s own equity instruments or is a derivative that will be settled by the Company’s exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company’s own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

2. Accounting policies continued

(f) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

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

Cash flow hedges

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

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

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

(g) Property, plant and equipment

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

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

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

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

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

(h) Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 October 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. 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.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 1 October 2006. In respect of acquisitions prior to 1 October 2006, goodwill is included at 1 October 2006 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable, save that only separable intangibles were recognised and goodwill was amortised. On transition, amortisation of goodwill has ceased.

Negative goodwill arising on an acquisition is recognised in profit or loss.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

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

2. Accounting policies continued

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 10 years; and
- software and licences 5 years.

(i) 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.

(j) 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.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 October 2006, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Calculation of recoverable amount

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

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

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

(k) Interest-bearing borrowings

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

(l) Employee benefits

Defined contribution plans

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

2. Accounting policies continued

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 reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

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

(m) 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.

(n) Revenue

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

(o) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement as incurred over the term of the lease.

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.

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.

Exceptional items

Exceptional 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 readers understanding of the financial statements, in accordance with IAS1 "Presentation of Financial Statements".

Financing costs

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

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

(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.

2. Accounting policies continued

(q) Segmental analysis

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Based on an analysis of risks and returns, the directors consider that the Group has one identifiable business segment; being the provision of care services. The Group likewise operates entirely within the UK and the directors consider that the risks and returns do not differ between geographical locations. As such no additional segmental disclosure is necessary.

3. Auditors' remuneration

	2008 £000	2007 £000
Audit of these financial statements	35	30
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	160	70
Other services relating to taxation	80	51
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	62	20
All other services	46	49

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. Exceptional items

Exceptional 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 readers understanding of the financial statements, in accordance with IAS 1: "Presentation of Financial Statements".

	Note	2008 £000	2007 £000
Acquisition integration costs	(i)	456	308
Business restructuring costs	(ii)	295	–
Included in operating expense		751	308
Loan finance costs written off on refinancing during the year	(iii)	650	–
Exceptional movements in hedging provisions following refinancing during the year	(iv)	1,265	–
Included in financial expenses		1,915	–
Exceptional items tax effect (note 7)			
Current tax		(402)	(92)
Deferred tax		(354)	–
		(756)	(92)

(i) Following the acquisitions of the Beacon and Valeo businesses during the year (see note 22) the Group incurred a number of costs relating to reorganisation as these businesses were integrated into the Group.

During 2007 similar costs were incurred following the acquisitions of Counticare and Community Support Project.

(ii) During 2008 the Group has incurred significant costs as it has restructured its business with respect to agency staff costs. To address this, non-recurring costs were incurred in the year to establish a wider pool of Group employees.

(iii) In April 2008, as previously announced, the Group completed a new banking facility agreement. The unamortised element of loan fee costs on the replaced debt has therefore been fully written off.

(iv) On completion of the new banking facility the hedge accounting previously adopted by the Group ceased in accordance with IAS 39: "Financial Instruments". Accordingly, £564,000 which had previously been recognised in the hedging reserve was transferred to the income statement for the year as a non-cash charge within financial expenses.

In addition to the above, further changes in the fair value of the Group's interest rate swaps (see note 23) of £701,000 have been charged to the income statement for the year as a non-cash charge within financial expenses.

5. Staff numbers and costs

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

	Number of employees	
	2008	2007
Residential care staff	1,933	1,690
Maintenance	19	12
Management and administration	131	96
	2,083	1,798

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	29,782	24,544
Share-based payments (notes 18 and 20)	113	87
Social security costs	2,575	3,198
Other pension costs	83	105
	32,553	27,934

The analysis of directors' emoluments and share options is included within sections (a) and (b) of the Directors' Report on page 21. This analysis forms part of these financial statements.

6. Finance income and expenses

	2008 £000	2007 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss:		
On bank deposits	71	60
Other interest	–	2
	71	62

	2008 £000	2007 £000
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	5,198	3,653
Finance charges in respect of finance leases	120	74
Other loans	–	14
Financial expenses before exceptional items	5,318	3,741
Exceptional movements relating to financial instruments (note 4)	1,265	–
Loan finance costs written off on refinancing during the year (note 4)	650	–
	7,233	3,741

7. Taxation

(a) Recognised in the income statement

	2008			2007		
	Before other items £000	Non-recurring and other items £000	Total £000	Before other items £000	Non-recurring and other items £000	Total £000
Current tax expense						
Current year	2,047	–	2,047	1,020	–	1,020
Current tax adjustment for exceptional items (note 4)	–	(402)	(402)	–	(92)	(92)
Adjustment for prior years	–	–	–	–	(800)	(800)
Total current tax	2,047	(402)	1,645	1,020	(892)	128
Deferred tax expense						
Current year	75	1,017	1,092	172	1,230	1,402
Deferred tax adjustment for exceptional items (note 4)	–	(354)	(354)	–	–	–
Deferred tax adjustment for change in tax rate	–	–	–	–	(405)	(405)
Total deferred tax	75	663	738	172	825	997
Total tax in income statement	2,122	261	2,383	1,192	(67)	1,125

7. Taxation continued

(b) Reconciliation of effective tax rate

	2008 £000	2007 £000
Profit before tax for the period	7,654	5,694
Tax using the UK corporation tax rate of 29% (2007: 30%)	2,220	1,708
Non-deductible expenses	163	217
Over-provided in prior years	–	(800)
Total tax in income statement	2,383	1,125

The calculation of the Group's deferred tax charge is significantly impacted because of the fact that IAS 12 does not permit discounting of deferred tax liabilities. This has been separately analysed in order to present earnings measures on a comparable basis (2008: £1,017,000, 2007: £1,230,000).

8. Earnings per share

	2008 £000	2007 £000
Profit attributable to ordinary shareholders	5,271	4,569
Weighted number of shares in issue for basic earnings per share	38,566,397	36,298,178
Weighted number of shares for diluted earnings per share	38,991,559	36,737,180

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

Earnings per share (pence per share)

Basic	13.67p	12.59p
Diluted	13.52p	12.44p

9. Adjusted earnings per share

A measure of adjusted earnings and adjusted earnings per share has been presented in order to present the earnings of the Group after adjusting for significant (or otherwise) exceptional items which are not considered to impact the underlying operations of the Group.

	Note	2008 £000	2007 £000
Profit attributable to ordinary shareholders		5,271	4,569
Amortisation	(i)	218	76
Goodwill adjustment	(ii)	–	157
Exceptional items (note 4)		2,666	308
Tax effect of exceptional items (note 7)		(756)	(92)
Tax adjustment in respect of prior years		–	(800)
Deferred tax credit on change in tax rate		–	(405)
Deferred tax charge without discounting	(iii)	1,140	1,438
Deferred tax charge after discounting	(iii)	(123)	(208)
Adjusted profit attributable to ordinary shareholders		8,416	5,043
Adjusted earnings per share (pence per share)			
Basic		21.82p	13.89p
Diluted		21.58p	13.73p

(i) Amortisation is charged on intangible software and customer relationship assets established in accordance with IFRS 3: "Business Combinations". As a non-cash charge it is added back to adjusted earnings.

(ii) An adjustment to goodwill in respect of the benefit of tax losses during 2007 which had not previously been recognised in the determination of goodwill.

(iii) The calculation of the Group's deferred tax charge is significantly impacted because of the fact that IAS 12 does not permit discounting of deferred tax liabilities. The net impact of £1,017,000 (2007: £1,230,000) has been separately analysed in order to present earnings measures on a comparable basis, see note 7.

10. Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2006	46,633	1,011	3,109	50,753
Acquisitions through business combinations	24,737	19	114	24,870
Other acquisitions	13,565	598	1,452	15,615
At 30 September 2007	84,935	1,628	4,675	91,238
At 1 October 2007	84,935	1,628	4,675	91,238
Acquisitions through business combinations	37,321	–	266	37,587
Other acquisitions	21,861	560	1,916	24,337
At 30 September 2008	144,117	2,188	6,857	153,162
Depreciation and impairment				
At 1 October 2006	756	343	1,253	2,352
Depreciation charge for the year	180	288	410	878
At 30 September 2007	936	631	1,663	3,230
At 1 October 2007	936	631	1,663	3,230
Depreciation charge for the year	404	170	782	1,356
At 30 September 2008	1,340	801	2,445	4,586
Net book value				
At 1 October 2006	45,877	668	1,856	48,401
At 30 September 2007	83,999	997	3,012	88,008
At 30 September 2008	142,777	1,387	4,412	148,576

Land and buildings

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

	2008 £000	2007 £000
Freehold	137,265	78,741
Long leasehold improvements	3,681	3,347
Short leasehold improvements	1,831	1,911
	142,777	83,999

Security

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

11. Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
At 1 October 2006	8,269	–	–	8,269
Acquisitions through business combinations	3,562	–	704	4,266
Other acquisitions – externally purchased	–	320	–	320
Goodwill reduction in respect of tax losses	(157)	–	–	(157)
At 30 September 2007	11,674	320	704	12,698
At 1 October 2007	11,674	320	704	12,698
Acquisitions through business combinations	3,900	–	–	3,900
Other acquisitions – externally purchased	–	419	–	419
At 30 September 2008	15,574	739	704	17,017
Amortisation and impairment				
At 1 October 2006	–	–	–	–
Amortisation for the year	–	64	12	76
At 30 September 2007	–	64	12	76
At 1 October 2007	–	64	12	76
Amortisation for the year	–	148	70	218
At 30 September 2008	–	212	82	294
Net book value				
At 1 October 2006	8,269	–	–	8,269
At 30 September 2007	11,674	256	692	12,622
At 30 September 2008	15,574	527	622	16,723

Amortisation

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

	2008 £000	2007 £000
Cost of sales	–	–
Administrative expenses	218	76
	218	76

Impairment testing for cash generating units containing goodwill

The Group tests goodwill for impairment on an annual basis by considering the recoverable amount of individual cash generating units against carrying value. Recoverable amount is, for the purpose of this testing, based on value in use assessments.

Cash generating units comprise collections of care homes acquired in separate transactions on which goodwill has arisen. This is the lowest level at which goodwill has arisen. This is the lowest level at which goodwill is monitored for impairment by management.

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 features of this calculation are shown below:

	2008	2007
Period on which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	0%	0%
Discount rate	8%	8%

In preparing value in use calculations for cash generating units cash flow periods of between 10 and 20 years have been used in order to match the period of goodwill with the average period of time service users are expected to remain with their relevant home.

12. Investments in subsidiaries

The Group has the following investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership	
			2008 %	2007 %
CareTech Community Services Limited	England and Wales	Ordinary	100	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	100	100
Care Support Services Limited	England and Wales	Ordinary	100	100
Delam Care Limited	England and Wales	Ordinary	100	100
Sunnyside Care Homes Limited	England and Wales	Ordinary	100	100
Lonsdale Midlands Limited	England and Wales	Ordinary	100	100
Daisybrook Limited	England and Wales	Ordinary	100	100
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	100
Counticare Limited	Gibraltar	Ordinary	100	100
Hazeldene UK Limited	England and Wales	Ordinary	100	100
One Six One Limited	England and Wales	Ordinary	100	100
Barleycare Limited	England and Wales	Ordinary	100	–
Valeo Limited	England and Wales	Ordinary	100	–
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	100	–
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	100	–
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	100	–
Beacon Care Holdings Limited	England and Wales	Ordinary	100	–
Beacon Care Investments Limited	England and Wales	Ordinary	100	–
Ashcroft House Limited	England and Wales	Ordinary	100	–
Ashring House Limited	England and Wales	Ordinary	100	–
Ashview House Limited	England and Wales	Ordinary	100	–
Beacon Care Limited	England and Wales	Ordinary	100	–
Beech Care Limited	England and Wales	Ordinary	100	–
Bright Care Limited	England and Wales	Ordinary	100	–
Emeraldpoint Limited	England and Wales	Ordinary	100	–
Glenroyd House Limited	England and Wales	Ordinary	100	–
Kirkstall Lodge Limited	England and Wales	Ordinary	100	–
Leigham Lodge Limited	England and Wales	Ordinary	100	–
Palm Care Limited	England and Wales	Ordinary	100	–
Primrose Court Limited	England and Wales	Ordinary	100	–
Vosse Court Limited	England and Wales	Ordinary	100	–
Wyatt House Limited	England and Wales	Ordinary	100	–
Addington House Limited	England and Wales	Ordinary	100	–
Magnolia Court Limited	England and Wales	Ordinary	100	–
Victoria Lodge Limited	England and Wales	Ordinary	100	–
Hereson House Limited	England and Wales	Ordinary	100	–
Huntsmans Lodge Limited	England and Wales	Ordinary	100	–
White Cliffs Lodge Limited	England and Wales	Ordinary	100	–

13. Trade and other receivables

	2008 £000	2007 £000
Trade receivables	9,808	7,169
Other debtors	382	97
Prepayments	1,243	1,128
	11,433	8,394

14. Cash and cash equivalents

	2008 £000	2007 £000
Cash and cash equivalents per balance sheet	2,126	1,093
Bank overdrafts	–	–
Cash and cash equivalents per cash flow statement	2,126	1,093

15. 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 23.

	2008 £000	2007 £000
Non-current liabilities		
Secured bank loans	86,177	70,461
Finance lease liabilities	912	574
	87,089	71,035
Current liabilities		
Current portion of secured bank loans	–	–
Current portion of finance lease liabilities	350	331
Other loans	–	100
	350	431

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2008 £000	Book value 2007 £000
Term loan	£	1.15% ¹	2013	–	70,461
Other loans	£	7%	2008	–	100
Term loan – A	£	1.4 ²	2013	64,495	–
Term loan – B	£	1.5 ²	2013	21,682	–
				86,177	70,561

¹ Margin over LIBOR.

² Margin over LIBOR and ratchets down to 1.25% on achievement of certain covenants.

In April 2008, the Group concluded a new banking facility of £120,000,000. This comprises tranche A of £65,000,000, tranche B of £40,000,000 and tranche C of £15,000,000. All of the amounts due under the previous term loan were repaid at this date.

At 30 September 2008, the Group has available bank and overdraft facilities, 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 overdraft facilities.

The term loan and any associated overdraft is secured by way of a charge over certain assets of the Group.

Other loans payable were associated with the acquisition of Community Support Project Limited.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000	Minimum lease payments 2007 £000	Interest 2007 £000	Principal 2007 £000
Less than 1 year	485	135	350	423	92	331
Between 1 and 5 years	1,463	551	912	920	346	574
More than 5 years	–	–	–	–	–	–
	1,948	686	1,262	1,343	438	905

16. Trade and other payables

	2008 £000	2007 £000
Trade payables	1,521	2,177
Accrued expenses	2,460	1,067
	3,981	3,244

All amounts are expected to be settled within 12 months of the balance sheet date.

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2008		2007	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	–	2,699	–	1,423
Intangible assets	–	6,234	–	2,760
Interest-bearing loans and borrowings	(354)	–	(61)	–
Employee benefits	(84)	–	(68)	–
Share-based payments	(259)	–	(227)	–
Rolled-over gains on property, plant and equipment	–	4,866	–	4,866
Tax (assets)/liabilities	(697)	13,799	(356)	9,049
Net of tax liabilities/(assets)	–	(697)	–	(356)
Net deferred tax liabilities		13,102		8,693

Movement in deferred tax during the year

	1 October 2007 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	30 September 2008 £000
Property, plant and equipment	1,423	1,140	–	136	2,699
Intangible assets	2,760	–	–	3,474	6,234
Rolled-over gains on property, plant and equipment	4,866	–	–	–	4,866
Interest-bearing loans and borrowings	(61)	(354)	61	–	(354)
Employee benefits	(68)	(16)	–	–	(84)
Share-based payments	(227)	(32)	–	–	(259)
	8,693	738	61	3,610	13,102

Movement in deferred tax during the previous year

	1 October 2006 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	30 September 2007 £000
Property, plant and equipment	(14)	1,437	–	–	1,423
Intangible assets	861	(59)	–	1,958	2,760
Rolled-over gains on property, plant and equipment	5,212	(346)	–	–	4,866
Interest-bearing loans and borrowings	(1)	–	(60)	–	(61)
Employee benefits	(56)	(12)	–	–	(68)
Share-based payments	–	(23)	(204)	–	(227)
	6,002	997	(264)	1,958	8,693

The Group had no unrecognised deferred tax assets at the balance sheet date (2007: £nil).

18. 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 £45,000 (2007: £35,000).

Share-based payments

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

18. Employee benefits continued

Options granted under the above schemes, together with those remaining at 30 September 2008 are as follows:

Date of grant	Scheme	Options granted	Options lapsed	Options remaining 30 September 2008	Option price (pence)
13 October 2005	Approved scheme	627,375	(268,319)	359,056	169
7 November 2005	SAYE Scheme	186,033	(44,824)	141,209	136
2 August 2006	Approved Scheme	52,427	(33,491)	18,936	292
2 August 2006	Unapproved Scheme	8,220	–	8,220	292
17 January 2007	Approved Scheme	162,885	(77,076)	85,809	345
17 January 2007	Unapproved Scheme	18,263	–	18,263	345
21 March 2007	Approved Scheme	6,077	–	6,077	452
2 February 2008	SAYE Scheme	101,397	(9,027)	92,370	440
2 May 2008	Approved Scheme	114,070	(1,485)	112,585	410
2 May 2008	Unapproved Scheme	23,843	–	23,843	410

All options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary.

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	628,524	2.24	534,874	1.81
Granted during period	114,070	4.10	168,962	3.49
Forfeited during period	(160,131)	(2.68)	(75,312)	(1.98)
Exercised during period	–	–	–	–
Outstanding at end of period	582,463	2.48	628,524	2.24
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 169p and 452p and had a weighted average remaining contractual life of 1 year.

During the year ended 30 September 2008, options were granted on 2 May 2008. The aggregate of the estimated fair values of the options granted on this date is £143,728, (2007: £157,268).

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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£2.48	£2.24
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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

18. Employee benefits continued**The CareTech Holdings 2005 Unapproved Share Option Scheme**

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	26,483	3.28	8,220	2.92
Granted during period	23,843	4.10	18,263	3.45
Forfeited during period	–	–	–	–
Exercised during period	–	–	–	–
Outstanding at end of period	50,326	3.67	26,483	3.28
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 292p and 410p and had a weighted average remaining contractual life of 1.8 years.

During the year ended 30 September 2008, options were granted on 2 May 2008. The aggregate of the estimated fair values of the options granted is £30,042, (2007: £16,802).

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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£3.67	£3.28
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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 Save As You Earn Scheme

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	186,033	1.36	186,033	1.36
Granted during period	101,397	4.40	–	–
Forfeited during period	(53,851)	(1.87)	–	–
Exercised during period	–	–	–	–
Outstanding at end of period	233,579	2.56	186,033	1.36
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 136p and 440p had a weighted average remaining contractual life of 1.1 years.

During the year ended 30 September 2008, options were granted on 2 February 2008. The aggregate of the estimated fair values of the options granted on this date is £165,277, (2007: no new options in year).

18. Employee benefits continued

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted.

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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£2.56	£1.36
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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.

19. Share capital

	2008 £000	2007 £000
Authorised:		
63,612,388 ordinary shares of 0.5p each	318	–
51,812,366 ordinary shares of 0.5p each	–	259
53,402 deferred shares of 0.5p each	–	–
	318	259

	2008 £000	2007 £000
Allotted, called up and fully paid:		
44,538,918 ordinary shares of 0.5p each	223	–
36,596,061 ordinary shares of 0.5p each	–	183
53,402 deferred shares of 0.5p each	–	–
	223	183

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.

During the year the Company issued 600,000 ordinary shares of 0.5p each for a total consideration of £2,211,000 in connection with the acquisition of Beacon Care and 200,000 ordinary shares of 0.5p each for a total consideration of £830,000 in connection with the acquisition of Valeo Limited (see note 22).

On 7 July 2008, a resolution was passed to increase the authorised ordinary share capital of the Company by 11,800,022 shares of 0.5p each and 7,142,857 ordinary shares of 0.5p each were issued for consideration of £29,012,000 (net of costs of the placing).

Movements in the number of issued shares were as follows:

	2008			At 30 September 2008
	At 1 October 2007	Issued in connection with acquisitions	Placing	
Ordinary shares of 0.5p each	36,596,061	800,000	7,142,857	44,538,918
Deferred shares of 0.5p each	53,402	–	–	53,402

	2007			At 30 September 2007
	At 1 October 2006	Issued in connection with acquisitions	Placing	
Ordinary shares of 0.5p each	36,232,424	363,637	–	36,596,061
Deferred shares of 0.5p each	53,402	–	–	53,402

20. Reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 October 2006	181	9,569	–	(3)	1,141	10,888
Total recognised income and expense	–	–	–	(141)	4,773	4,632
Issue of ordinary shares	2	–	1,998	–	–	2,000
Equity settled share-based payment transactions	–	–	–	–	87	87
Dividends	–	–	–	–	(362)	(362)
At 30 September 2007	183	9,569	1,998	(144)	5,639	17,245
At 1 October 2007	183	9,569	1,998	(144)	5,639	17,245
Total recognised income and expense	–	–	–	144	5,271	5,415
Issue of ordinary shares	40	28,974	3,039	–	–	32,053
Equity settled share-based payment transactions	–	–	–	–	113	113
Dividends	–	–	–	–	(1,115)	(1,115)
At 30 September 2008	223	38,543	5,037	–	9,908	53,711

Merger reserve

The merger reserve arises in respect of the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another Company.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

21. Dividends

The aggregate amount of dividends comprises:

	2008 £000	2007 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	732	–
Interim dividends paid in respect of the current year	383	362
Aggregate amount of dividends paid in the financial year	1,115	362
Dividends in respect of the year recognised as a liability at the year-end	–	–
	1,115	362

The aggregate amount of dividends proposed and not recognised as liabilities as at the year-end is 2.725p per share, £1,213,685 (2007: 2.0p per share, £732,000).

22. Acquisitions of subsidiaries

(a) Acquisition of Beacon Care

On 28 April 2008, CareTech Holdings PLC acquired the entire share capital of Beacon Care Holdings Limited and Beacon Care Investments Limited, together with their wholly-owned subsidiary companies and certain associated freehold properties. The provisional fair values attributed by the directors to the recognisable net assets are as follows:

	Book value £000	Properties acquired £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment		21,258	2,064	23,322
Debtors	418			418
Cash	799			799
Creditors:				
Trade creditors	(113)			(113)
Corporation tax	(88)			(88)
Accruals and deferred income	(547)			(547)
Other creditors	(218)			(218)
Deferred tax	(62)		(578)	(640)
	189			22,933
Consideration:				
Cash consideration				18,625
Shares				2,211
Cost of acquisition				2,675
Total cost of acquisition				23,511
Goodwill arising on acquisition				578

22. Acquisitions of subsidiaries continued

The book values of assets and liabilities were extracted from the underlying accounting records of the Company at the date of acquisition. The provisional fair value adjustments made to property, plant and equipment were to reflect their value on a going concern market-value basis. The fair value of the share consideration is based on the share price on the day of acquisition.

Goodwill arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to property, plant and equipment.

Contingent consideration is payable on the achievement of certain performance targets. The maximum amount of contingent consideration payable is £3,900,000. The amount recorded within cash consideration is stated at the current best estimate of the amount expected to be paid.

Following acquisition, Beacon contributed EBITDA of £949,000 to the Group's result for the year ended 30 September 2008.

(b) Acquisition of Valeo Limited

On 17 June 2008, CareTech Holdings PLC acquired the entire share capital of Valeo Limited. The provisional fair values attributed by the directors to the recognisable net assets are as follows:

	Book value £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment	3,924	10,341	14,265
Debtors	461		461
Cash	16		16
Creditors:			
Trade creditors	(114)		(114)
Accruals and deferred income	(726)		(726)
Other creditors	(308)		(308)
Bank loans and overdrafts	(1,185)		(1,185)
Corporation tax	(187)		(187)
Deferred tax	–	(2,896)	(2,896)
	1,881		9,326
Consideration:			
Cash consideration			10,402
Shares			830
Costs of acquisition			990
Total cost of acquisition			12,222
Goodwill arising on acquisition			2,896

The book values of assets and liabilities were extracted from the underlying accounting records of the Company at the date of acquisition. The provisional fair value adjustments made to property, plant and equipment were to reflect their value on a going concern market-value basis. The fair value of the share consideration is based on the share price on the day of acquisition.

Goodwill arises due to the requirement to recognise deferred tax in respect of the fair value adjustment to property, plant and equipment.

Contingent consideration is payable on the achievement of certain performance targets. The maximum amount of contingent consideration payable is £2,800,000. The amount included within cash consideration is stated at the current best estimate of the amount expected to be paid.

Following acquisition, Valeo contributed EBITDA of £428,000 to the Group's result for the year ended 30 September 2008.

(c) Acquisition of assets from Counticare Holdings Limited

On 16 November 2006, CareTech Estates Limited acquired certain freehold properties from Counticare Holdings Limited and CareTech Community Services Limited acquired the entire share capital of Counticare Limited and Hazeldene UK Limited. The fair values attributed by the directors to the recognisable net assets are as follows:

	Book value £000	Freeholds acquired £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment	92	12,242	4,024	16,358
Debtors	479			479
Cash	180			180
Creditors:				
Other payables	(1,532)			1,532
Deferred tax	–		(1,074)	1,074
	(781)			14,411
Consideration:				
Cash consideration				14,277
Costs of acquisition				1,208
Total cost of acquisition				15,485
Goodwill arising on acquisition				1,074

22. Acquisitions of subsidiaries continued

The book values of assets and liabilities were extracted from the underlying accounting records of Counticare Holdings Limited, Counticare Limited and Hazeldene UK Limited at the date of acquisition. The fair value adjustments made to property, plant and equipment, were to reflect their value on a going concern market-value basis.

Goodwill arises due to the requirement to recognise deferred tax in respect of the fair value adjustment to property, plant and equipment.

(d) Acquisition of Community Support Project Limited

On 26 July 2007, CareTech Holdings PLC acquired the entire share capital of Community Support Project Limited, together with its wholly-owned subsidiary One Step (Support) Limited and certain freehold and associated long leasehold properties.

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

	Book value £000	Freeholds acquired £000	Fair value adjustment £000	Fair value £000
Intangible fixed assets	–		704	704
Property, plant and equipment	3,252	3,000	2,448	8,700
Debtors	1,323			1,323
Cash	208			208
Creditors:				
Bank loans	(2,084)			(2,084)
Shareholder loans	(962)			(962)
Other liabilities	(1,260)			(1,260)
Deferred tax	–		(685)	(685)
	477			5,944
Consideration:				
Cash consideration				5,971
Shares				2,000
Costs of acquisition				676
Total cost of acquisition				8,647
Goodwill arising on acquisition				2,703

The book values of assets and liabilities were extracted from the underlying accounting records of Community Support Project Limited and One Step (Support) Limited at the date of acquisition. The fair values adjustments made to property, plant and equipment reflect their value on a going concern market-value basis.

Goodwill arises due to the requirement to recognise deferred tax in respect of the fair value adjustment to property, plant and equipment.

During the year, goodwill has increased by £425,000 in respect of final settlement to the vendor on this acquisition.

(e) Reconciliation to Group cash flow

	One Step £000	Beacon £000	Valeo £000	Total £000
Cash consideration and costs paid	(425)	(18,800)	(11,042)	(30,267)
Net cash acquired	–	799	16	815
Debt acquired	–	–	(1,185)	(1,185)
	(425)	(18,001)	(12,211)	(30,637)

(f) 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:

	2008 £000	2007 £000
Revenue	75,000	52,000
Operating profit	16,000	11,000

23. 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.

23. Financial instruments continued

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 and the balance sheet is net of an allowance of £25,000 (2007: £13,000) for specific doubtful receivables, the allowance being due to age or other issues. The Group does not require collateral in respect of financial assets. During the year there was no charge to the income statement for bad or doubtful debts (2007: £nil).

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

	2008 £000	2007 £000
Not due	4,990	4,888
Not more than 3 months past due	3,897	2,108
More than 3 months but not more than 6 months past due	921	173
More than 6 months past due	–	–
Trade receivables total	9,808	7,169

Interest rate risk

The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. As at 30 September, the Group carried 3 hedging instruments, details of which are as follows:

- a 4 year floating rate swap of £35 million 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%; and
- a 5 year swap of £15 million commencing 28 April 2008 at LIBOR fixed at 5.25% until December 2009 and rising to 5.99% thereafter.

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, 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. In respect of financial liabilities, the following table indicates their contractual cash flow maturities.

	2008					
	Effective interest rate %	Total £000	0 to <1 years £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Trade and other payables	–	(3,981)	(3,981)	–	–	–
Secured bank loans	7%	(86,177)	–	–	(86,177)	–
Finance lease liabilities*	11%	(1,262)	(350)	(350)	(562)	–
Deferred consideration	–	(2,150)	(2,150)	–	–	–
Contingent consideration	–	(6,211)	(6,211)	–	–	–
		(99,781)	(12,692)	(350)	(86,739)	–

	2007					
	Effective interest rate %	Total £000	0 to <1 years £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Trade and other payables	–	(3,244)	(3,244)	–	–	–
Secured bank loans	7%	(70,461)	–	–	(70,461)	–
Finance lease liabilities*	9%	(905)	(331)	(331)	(243)	–
Other loans*	7%	(100)	(100)	–	–	–
Deferred consideration	–	–	–	–	–	–
Contingent consideration	–	–	–	–	–	–
		(74,710)	(3,675)	(331)	(70,704)	–

* These assets/liabilities bear interest at a fixed rate.

23. Financial instruments continued

Capital risk management

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

The Group's capital structure is as follows:

	2008 £000	2007 £000
Net debt (note 25)	(85,313)	(70,373)
Equity (note 20)	53,711	17,245

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 2008, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £587,000 (2007: £398,000). 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 2008 £000	Fair value 2008 £000	Carrying amount 2007 £000	Fair value 2007 £000
Loans and receivables:				
Cash at bank and in hand	2,126	2,126	1,093	1,093
Trade receivables	9,808	9,808	7,169	7,169
Amortised cost:				
Trade payables	(1,521)	(1,521)	(2,177)	(2,177)
Secured bank loans	(86,177)	(86,177)	(70,461)	(70,461)
Financial lease liabilities	(1,262)	(1,262)	(905)	(905)
Other loans	–	–	(100)	(100)
Held at fair value:				
Financial instruments	(1,264)	(1,264)	(205)	(205)

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.

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008		2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	4,226	44	3,979	109
Between 1 and 5 years	16,020	30	15,186	57
More than 5 years	150,257	–	153,560	–
	170,503	74	172,725	166

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 £4,088,000 was recognised as an expense in the income statement in respect of operating leases (2007: £3,989,000).

25. Net debt

	1 October 2007 £000	New Borrowings £000	New Leases £000	Repaid	30 September 2008 £000
Bank debt	(70,461)	(15,716)	–	–	(86,177)
Finance leases	(905)	–	(802)	445	(1,262)
Other loans	(100)	–	–	100	–
	(71,466)	(15,716)	(802)	545	(87,439)
Cash balances	1,093				2,126
	(70,373)				(85,313)

26. Related parties

Leighton House

CareTech Community Services Limited entered into a lease agreement in 1998 with F Sheikh and H Sheikh, both directors, concerning the use of Leighton House, the Group's head office. The lease expired in May 2007 and is currently being re-negotiated. The annual rent charged under the lease is £53,650 (2007: £53,650).

Transactions with key management personnel

Key management personnel are defined as directors of the Company as set out on page 60.

Directors of the Company and their immediate relatives control 36.3% of the voting shares of the Company.

Director's emoluments are set out on page 21.

27. Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS equity 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 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 2008 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.

28. Explanation of transition to Adopted IFRSs

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 estimate of the useful life applied to each category of property, plant and equipment which, in turn, determines the annual depreciation charge. Variations in asset lives could impact significantly Group profit through an increase in the depreciation charge. Similarly, the directors estimate the residual value, in particular of freehold property, and variations in these estimates could impact the depreciation change.

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.

28. Explanation of transition to Adopted IFRSs continued

Deferred taxation

The Group has losses and other temporary differences for which no value has been recognised for deferred tax purposes in these financial statements.

As stated in notes 1 and 2, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended 30 September 2008, the comparative information presented in these financial statements for the year ended 30 September 2007 and in the preparation of an opening IFRS balance sheet at 1 October 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position and financial performance is set out below and in the following tables.

The following are the most significant adjustments arising from transition to IFRS:

(a) Business Combinations

IFRS 3 "Business Combinations" does not permit the amortisation of goodwill through the income statement. Instead, goodwill is carried at cost and reviewed for impairment annually and also when there is any indication that the carrying value may not be recoverable. Under the transitional arrangements of IFRS 1 "First Time Adoption of IFRS", the Group has decided to apply the standard prospectively from 1 October 2006. Consequently periodic amortisation of goodwill through the income statement has ended. Under UK GAAP goodwill was amortised over its estimated useful life, which did not exceed 20 years.

New intangible assets created under IFRS 3 "Business Combinations" relate to customer relationships and are deemed to have a finite life and no residual value. Customer relationships are amortised over their estimated useful economic lives, which does not exceed 10 years. Under UK GAAP, intangible assets were not separately recognised from goodwill.

The UK GAAP goodwill balance of £7,408,000, as reported at 30 September 2006, has been included in the IFRS consolidated opening balance sheet and is no longer amortised. This gives rise to a credit of £452,000 to operating profit in the Group's consolidated income statement for the year ended 30 September 2007.

An impairment analysis was conducted at 30 September 2006, 31 March 2007 and 30 September 2007. This did not give rise to an impairment charge under IAS 36 "Impairment of Assets".

(b) Interest rate swaps

Under IAS 39, the Group must recognise its financial instruments at fair value at each balance sheet date.

The Group has chosen to apply hedge accounting under IAS 39 to financial instruments at 1 October 2006. As such, movements in the fair value of these instruments are taken to the statement of recognised income and expenses. At transition their fair value represented a liability of £4,000. At 30 September 2007 this had increased to a liability of £205,000, with the movement being charged through the statement of recognised income and expenses.

There is no change to the economic consequences or cash flows arising as a result of having entered into the swaps, and there is no impact of this accounting on covenant compliance – covenants are set with reference to cash interest payable, not the accounting charge.

(c) Taxation

IAS 12 "Income Taxes" differs from UK GAAP by using a balance sheet based methodology. Changes in the accounting treatment of a number of balance sheet items will impact the deferred tax charge and liability. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity. Deferred tax adjustments are also required in respect of certain of the adopted IFRS transitional accounting adjustments noted above, principally due to the prohibition against discounting deferred tax balances, against fair value adjustments in respect of acquisitions (including property valuation uplifts) and the amounts recognised when accounting for IAS 39.

The effect on the income statement has been to increase the tax charge by £789,000 in the year to September 2007 and by £235,000 in the 6 months to 31 March 2007.

Furthermore, under UK GAAP deferred tax was not required to be provided where proceeds on the sale of assets had been reinvested into qualifying business assets and gains rolled over. Under IFRS deferred tax on such rolled over gains is required to be recognised even where the liability will not crystallise until the new assets are sold. The effect of this adjustment was to reduce net assets by £5,213,000 at date of transition. This was reduced to £4,866,000 as at 30 September 2007 due to changes in the underlying corporation tax rate.

(d) Purchased software

Various reclassifications of balance sheet items have been made to ensure compliance with IFRS. The most notable is that under IFRS, the cost of purchased software, which was previously presented within "Property, plant and equipment" under UK GAAP, is reclassified to "Intangible assets" under IFRS. The effect of this transfer is to reduce property plant and equipment by £256,000 and increase intangible assets by the same value as at 30 September 2007.

An impairment analysis was conducted at each of the balance sheet dates. This did not indicate impairment under IAS 36 "Impairment of Assets".

28. Explanation of transition to Adopted IFRSs continued
Reconciliation of equity – at 1 October 2006 (transition date)

	Note	UK GAAP previously reported £000	Presentation adjustments £000	Accounting adjustments £000	Restated in accordance with IFRS £000
Non-current assets					
Property, plant and equipment		48,401	–	–	48,401
Intangible assets	(a)	7,408	–	861	8,269
		55,809	–	861	56,670
Current assets					
Trade and other payables		2,766	–	–	2,766
Cash and cash equivalents		1,478	–	–	1,478
		4,244	–	–	4,244
Total assets		60,053	–	861	60,914
Current liabilities					
Trade and other payables	(b)	(6,851)	6,851	–	–
Tax liabilities		–	(2,916)	(185)	(3,101)
Deferred income		–	(2,036)	–	(2,036)
Financial instruments	(c)	–	(2,691)	–	(2,691)
		–	–	(4)	(4)
		(6,851)	(792)	(189)	(7,832)
Non-current liabilities					
Loans and borrowings		(36,984)	36,984	–	–
Deferred tax	(a-e)	–	(36,192)	–	(36,192)
		–	–	(6,002)	(6,002)
		(36,984)	792	(6,002)	(42,194)
Total liabilities		(43,835)	–	(6,191)	(50,026)
Net assets		16,218	–	(5,330)	10,888
Called up share capital		181	–	–	181
Share premium account		9,569	–	–	9,569
Hedging reserve	(c)	–	–	(3)	(3)
Retained earnings	(b,d,e)	6,468	–	(5,327)	1,141
Total equity		16,218	–	(5,330)	10,888

The key accounting changes are summarised as follows:

- (a) deferred tax on fair value adjustments
- (b) additional accruals under IAS 19
- (c) fair value of financial instruments adjustment
- (d) deferred tax on rolled over gains
- (e) other adjustments to deferred tax arising from IFRS

28. Explanation of transition to Adopted IFRSs continued
Reconciliation of profit for the year ended 30 September 2007

	Note	UK GAAP previously reported £000	Presentation adjustments £000	Accounting adjustments £000	Restated in accordance with IFRS £000
Revenue		53,119			53,119
Cost of sales	(a)	(38,890)	–	(40)	(38,930)
Gross profit		14,229	–	(40)	14,189
Administrative expenses		(5,109)	–	293	(4,816)
Operating profit		9,120	–	253	9,373
EBITDA		10,909	–	(30)	10,879
Depreciation	(c)	(942)	64	–	(878)
Amortisation	(b,c)	(452)	(64)	440	(76)
Goodwill adjustment	(d)	–	–	(157)	(157)
Share-based payments		(87)	–	–	(87)
Exceptional items		(308)	–	–	(308)
Operating profit		9,120	–	253	9,373
Financial income		62	–	–	62
Financial expense		(3,741)	–	–	(3,741)
Profit before tax		5,441	–	253	5,694
Income tax expense	(a,e,f)	(336)	–	(789)	(1,125)
Profit for the period		5,105	–	(536)	4,569

The key accounting changes are summarised as follows:

- (a) additional accruals under IAS 19
- (b) reversal of goodwill amortisation
- (c) reclassification of software depreciation to amortisation
- (d) goodwill reduction in respect of tax losses acquired as part of business combination which were not initially recognised
- (e) reversal of discounting on deferred tax
- (f) other adjustments to deferred tax comprising tax rate change and deferred tax effects of IFRS adjustments

28. Explanation of transition to Adopted IFRSs continued

Reconciliation of equity – at 30 September 2007

	Note	UK GAAP previously reported £000	Presentation adjustments £000	Accounting adjustments £000	Restated in accordance with IFRS £000
Non-current assets					
Property, plant and equipment		88,264	(256)	–	88,008
Intangible assets:					
Goodwill	(a)	9,253	(692)	3,113	11,674
Software		–	256	–	256
Contracts		–	692	–	692
		97,517	–	3,113	100,630
Current assets					
Trade and other receivables		8,394	–	–	8,394
Cash and cash equivalents		1,093	–	–	1,093
		9,487	–	–	9,487
Total assets		107,004	–	3,113	110,117
Current liabilities					
Loans and borrowings		(12,713)	12,713	–	–
Trade and other payables	(b)	–	(431)	–	(431)
Tax liabilities		–	(3,018)	(226)	(3,244)
Deferred income		–	(2,051)	–	(2,051)
Financial instruments	(c)	–	(7,213)	–	(7,213)
		–	–	(205)	(205)
		(12,713)	–	(431)	(13,144)
Non-current liabilities					
Loans and borrowings		(71,035)	–	–	(71,035)
Deferred tax	(a-f)	(208)	–	(8,485)	(8,693)
		(71,243)	–	(8,485)	(79,728)
Total liabilities		(83,956)	–	(8,916)	(92,872)
Net assets		23,048	–	(5,803)	17,245
Called up share capital		183	–	–	183
Share premium account		9,569	–	–	9,569
Merger reserve		1,998	–	–	1,998
Hedging reserve	(c)	–	–	(144)	(144)
Retained earnings	(a,b,d,e,f)	11,298	–	(5,659)	5,639
Total equity		23,048	–	(5,803)	17,245

The key accounting changes are summarised as follows:

- (a) deferred tax on fair value adjustments
- (b) additional accruals under IAS 19
- (c) fair value of financial instruments adjustment
- (d) deferred tax on rolled over gains
- (e) other adjustments to deferred tax arising from IFRS
- (f) deferred tax on share based payments

Company Balance Sheet – UK GAAP
at 30 September 2008

	Note	2008 £000	2007 £000
Fixed assets			
Investments	31	31,013	15,563
Current assets			
Debtors	32	16,525	10
Cash at bank and in hand		50	14
		16,575	24
Creditors: amounts falling due within one year	33	(440)	(1,404)
Net current assets/(liabilities)		16,135	(1,380)
Net assets		47,148	14,183
Capital and reserves			
Called up share capital	34	223	183
Share premium account	36	38,543	9,569
Merger reserve	36	5,037	1,998
Profit and loss account	36	3,345	2,433
Total equity		47,148	14,183

These financial statements were approved by the Board of directors on 9 December 2008 and were signed on its behalf by:



F. Sheikh
Director

Company Reconciliation of Movements in Shareholders' Funds
for the year ended 30 September 2008

	2008 £000	2007 £000
Profit/(loss) for the financial year	1,914	(62)
Dividends on shares classified in shareholders' funds	(1,115)	(362)
Retained profit/(loss)	799	(424)
Charge in relation to share-based payments	113	87
New share capital subscribed (net of issue costs)	32,053	2,000
Net addition to shareholders' funds	32,965	1,663
Opening shareholders' funds	14,183	12,520
Closing shareholders' funds	47,148	14,183

29. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

(a) Basis of preparation

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

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it includes the Company in its own published consolidated financial statements.

(b) Taxation

The charge for taxation is based on the profit or loss 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 tax 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.

(c) Share-based payments

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

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

(d) 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.

(e) 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.

(f) Investments

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

30. Dividends

The aggregate amount of dividends comprises:

	2008 £000	2007 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	732	–
Interim dividends paid in respect of the current year	383	362
Aggregate amount of dividends paid in the financial year	1,115	362
Dividends in respect of the year recognised as a liability at the year-end	–	–
	1,115	362

The aggregate amount of dividends proposed and not recognised as liabilities as at the year-end is 2.725p per share, £1,213,685 (2007: 2.0p per share, £732,000).

31. Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	15,563
Additions	15,337
Share-based payments charge in respect of subsidiary undertakings	113
At end of year	31,013

32. Debtors

	2008 £000	2007 £000
Amounts owed by Group undertakings	16,413	–
Other debtors	112	10
	16,525	10

33. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Amounts owed to Group undertakings	–	1,404
Other creditors	440	–
	440	1,404

34. Called up share capital

	2008 £000	2007 £000
Authorised:		
63,612,388 ordinary shares of 0.5p each	318	–
51,812,366 ordinary shares of 0.5p each	–	259
53,402 deferred shares of 0.5p each	–	–
	318	259
	2008 £000	2007 £000
Allotted, called up and fully paid:		
44,538,918 ordinary shares of 0.5p each	223	–
36,596,061 ordinary shares of 0.5p each	–	183
53,402 deferred shares of 0.5p each	–	–
	223	183

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

During the year, the Company issued 600,000 ordinary shares of 0.5p each for a total consideration of £2,211,000 in connection with the acquisition of Beacon Care and 200,000 ordinary shares of 0.5p each for a total consideration of £830,000 in connection with the acquisition of Valeo Limited (note 22).

On 7 July 2008, a resolution was passed to increase the authorised ordinary share capital of the Company by 11,800,022 shares of 0.5p each and 7,142,857 ordinary shares of 0.5p each were issued for consideration of £29,012,000 (net of costs of placing).

35. 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 £45,000 (2007: £35,000).

Share-based payments

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

35. Employee benefits continued

Options granted under the above schemes, together with those remaining at 30 September 2008 are as follows:

Date of grant	Scheme	Options granted	Options lapsed	Options remaining 30 September 2008	Option price (pence)
13 October 2005	Approved scheme	627,375	(268,319)	359,056	169
7 November 2005	SAYE Scheme	186,033	(44,824)	141,209	136
2 August 2006	Approved Scheme	52,427	(33,491)	18,936	292
2 August 2006	Unapproved Scheme	8,220	–	8,220	292
17 January 2007	Approved Scheme	162,885	(77,076)	85,809	345
17 January 2007	Unapproved Scheme	18,263	–	18,263	345
21 March 2007	Approved Scheme	6,077	–	6,077	452
2 February 2008	SAYE Scheme	101,397	(9,027)	92,370	440
2 May 2008	Approved Scheme	114,070	(1,485)	112,585	410
2 May 2008	Unapproved Scheme	23,843	–	23,843	410

All options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary.

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	628,524	2.24	534,874	1.81
Granted during period	114,070	4.10	168,962	3.49
Forfeited during period	(160,131)	(2.68)	(75,312)	(1.98)
Exercised during period	–	–	–	–
Outstanding at end of period	582,463	2.48	628,524	2.24
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 169p and 452p and had a weighted average remaining contractual life of 1 year.

During the year ended 30 September 2008, options were granted on 2 May 2008. The aggregate of the estimated fair values of the options granted on this date is £143,728, (2007: £157,268).

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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£2.48	£2.24
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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.

35. Employee benefits continued

The CareTech Holdings 2005 Unapproved Share Option Scheme

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	26,483	3.28	8,220	2.92
Granted during period	23,843	4.10	18,263	3.45
Forfeited during period	–	–	–	–
Exercised during period	–	–	–	–
Outstanding at end of period	50,326	3.67	26,483	3.28
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 292p and 410p and had a weighted average remaining contractual life of 1.8 years.

During the year ended 30 September 2008, options were granted on 2 May 2008. The aggregate of the estimated fair values of the options granted is £30,042, (2007: £16,802).

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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£3.67	£3.28
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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 Save As You Earn Scheme

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

	2008		2007	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of period	186,033	1.36	186,033	1.36
Granted during period	101,397	4.40	–	–
Forfeited during period	(53,851)	(1.87)	–	–
Exercised during period	–	–	–	–
Outstanding at end of period	233,579	2.56	186,033	1.36
Exercisable at end of period	–	–	–	–

The options outstanding at 30 September 2008 were exercisable at prices between 136p and 440p had a weighted average remaining contractual life of 1.1 years.

During the year ended 30 September 2008, options were granted on 2 February 2008. The aggregate of the estimated fair values of the options granted on this date is £165,277, (2007: no new options in year).

35. Employee benefits continued

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. 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:

	2008	2007
Weighted average share price	£4.63	£3.08
Weighted average exercise price	£2.56	£1.36
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	5%	5%
Dividend yield	–	–

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.

36. Reserves

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 October 2007	183	9,569	1,998	2,433	14,183
Profit for the year	–	–	–	1,914	1,914
Dividends on shares classified in shareholders' funds	–	–	–	(1,115)	(1,115)
Share-based payments	–	–	–	113	113
Issue of ordinary shares (net of costs)	40	28,974	3,039	–	32,053
At 30 September 2008	223	38,543	5,037	3,345	47,148

37. Directors' remuneration

The analysis of directors' emoluments and share options is included within sections (a) and (b) of the Directors' Report on page 21. This analysis forms part of these financial statements.

38. Staff numbers and costs

The Company has no employees (2007: none). Directors' emoluments are paid by a subsidiary undertaking.

Company Number:

4457287

Registered Office:

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

Directors:

Farouq Sheikh	(Executive Chairman)
Richard Steeves	(Non-Executive Deputy Chairman)
Haroon Sheikh	(Chief Executive Officer)
David Spink	(Finance Director)
David Pugh	(Director – appointed 9 December 2008)
Stewart Wallace	(Corporate Development Director)
Karl Monaghan	(Non-Executive Director)
Christa Echtle	(Non-Executive Director – appointed 15 October 2008)
Richard Midmer	(Non-Executive Director – resigned 8 July 2008)

Company Secretary:

David Spink

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12 Smithfield Street
London
EC1A 9BD

Auditors**KPMG Audit Plc**

2 Cornwall Street
Birmingham
B3 2DL

Solicitors**Pinsent Masons**

CityPoint
One Ropemaker Street
London
EC2Y 9AH

Bankers**The Royal Bank of Scotland plc**

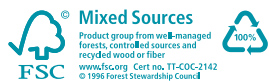
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