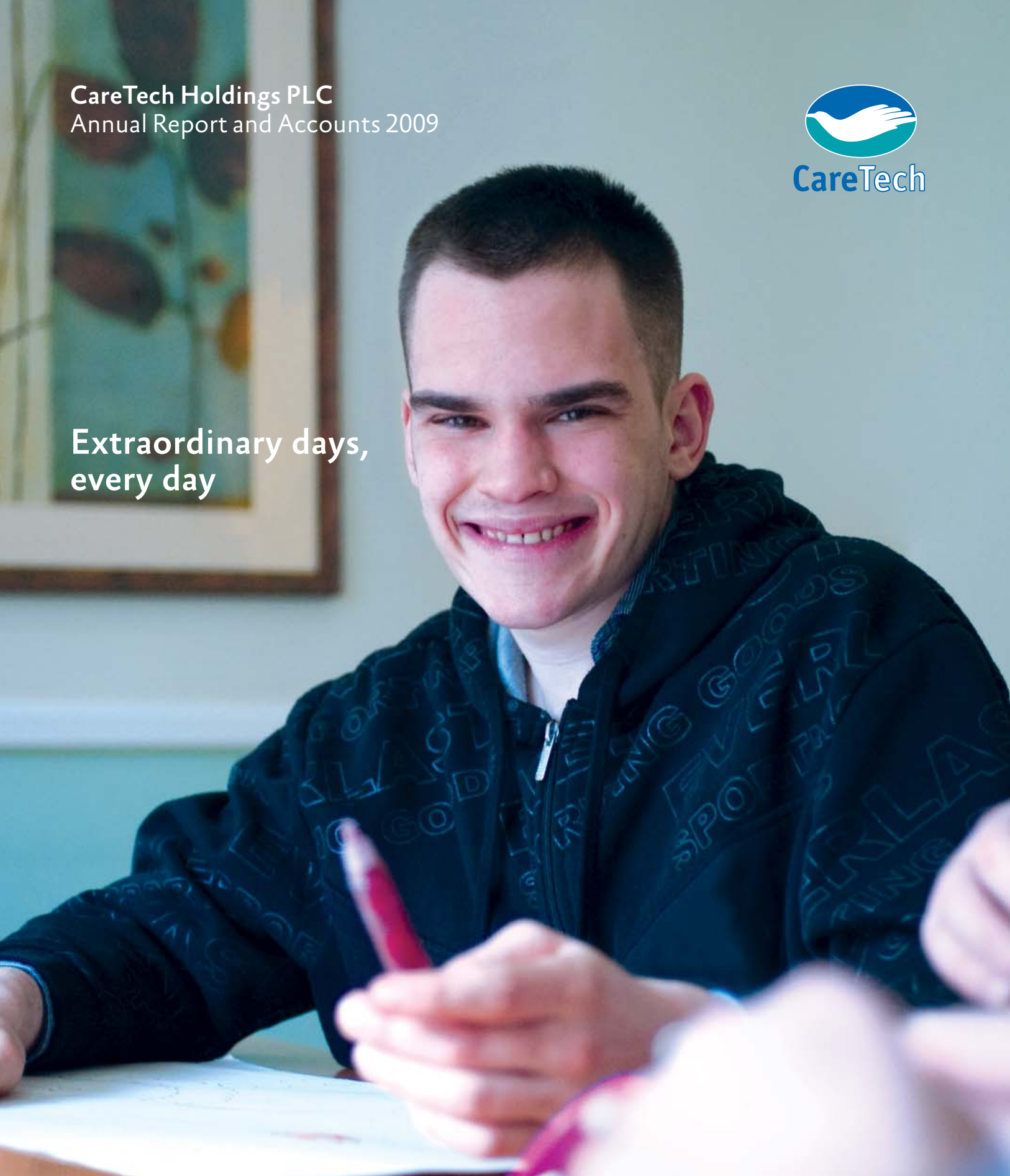




Extraordinary days,
every day



Highlights

£83.4m
Revenue increased by 23%
(2008: £67.7m)

27.15p
Diluted earnings per share⁽ⁱ⁾ increased by 26%
(2008: 21.58p)

1,430 beds
Overall resident capacity increased by 122
(including 97 organic beds)

£22.8m
EBITDA⁽ⁱ⁾ increased by 32%
(2008: £17.3m)

£19.8m
Cash inflows from operating activities
increased by 38% (2008: £14.4m)

25 beds
Acquisition of 25 community mental health
beds from Lyndhurst Psychiatric Care

£15.3m
Profit before tax⁽ⁱⁱ⁾ increased by 45%
(2008: £10.5m)

3.100p
Final dividend per share resulting in full year
dividend growth of 25% (2008: 2.725p)

(i) EBITDA is operating profit stated before depreciation, share-based payments charge, amortisation of intangible assets and significant items (explained in note 4).
(ii) Profit before tax and diluted earnings per share are stated before amortisation of intangible assets and significant items (explained in note 4).



LEADING THE WAY

CareTech is a leading provider of specialist social care services.

We aim to provide better lives for people with severe learning difficulties, challenging behaviours and mental health problems, 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.

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Review

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Extraordinary days, every day

The CareTech pathway model delivers progress for each person we support. Outcomes driven, creative and progressive this is the approach of choice.

Nursing and residential services

High need supported living

Young people

Day opportunities

Family assessment

Children's homes and services

One to One community support

Mental health services

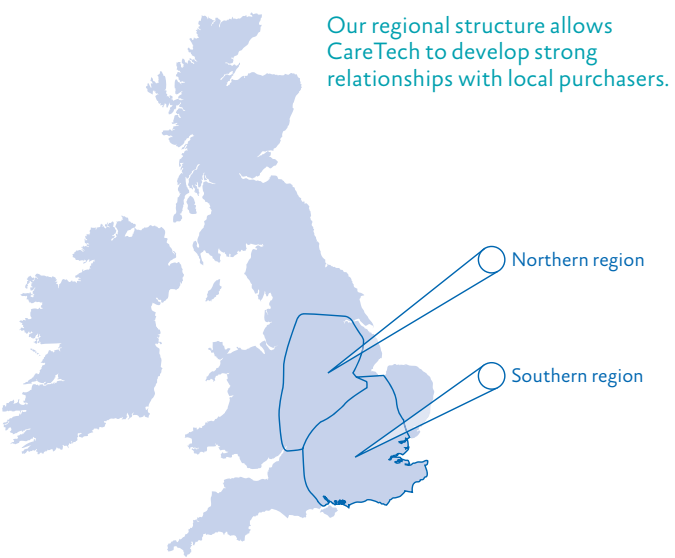
Independent supported living

Transitional services

FULFILLING THE MARKET NEED

CareTech’s professional care and support team spend a great deal of time with service users, their families and care managers. These partnerships enable the Company to plan carefully for the needs of today and tomorrow. The shape of care and support is changing and we are careful to anticipate the direction of travel. In particular the Company has become increasingly focused on individual wishes and requirements, service users and their families take greater control of the design and support. The people who use our services also drive the shape and nature of what we offer.

OPERATING WITH REGIONAL TEAMS



One to One
community
support

85,775

Estimated number of UK
residential beds



Supported
living
Real life support.



GETTING CLOSE TO DECISION MAKERS

Who are the real decision makers in an environment of increasing personalisation of services? CareTech's approach has always been to work in partnerships, delivering what people want at a price they can afford; delivering added value wherever we possibly can.

Trusted

To act with integrity, always putting the needs of our users at the forefront of decision making.

Expert

With a lifetime of professional expertise from Board level to front line, CareTech's support teams know what they are doing, and do it well.

Innovative

CareTech's managers have pioneered new approaches to care and developed innovative solutions that deliver first rate outcomes. We developed the first specialist, early onset dementia service, a new approach to independent supported living and closed the gap between residential care and personal support.

UK coverage

With services operating from Leeds and Huddersfield to the West Country and East Anglia we are able to offer sensible local solutions for service users as well as opportunities for our staff.

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

High need supported living
The full spectrum of supported living.

Day opportunities

Young people
Leaving school, college or the family home.

DELIVERING GROWTH

We have made further significant progress during the year and I am pleased to report excellent growth in all key performance measures. We continue to benefit from strong visibility of income through the provision of cost efficient long-term quality care solutions for individuals and local authorities.

Our range of services and geographical coverage has continued to expand and we are well placed to deliver further growth in market share. We continue to see significant opportunities to deliver effective solutions for individuals and local authorities in the provision of specialist social care solutions.



Farouq Sheikh
Chairman

Results

During the year to 30 September 2009 the Group continued to deliver strong growth and made significant progress in developing complementary services and enhanced capabilities. Revenue grew by 23% to £83.4m (2008: £67.7m). Our performance was further strengthened by effective management of costs and the benefits of operational gearing, helping to deliver EBITDA of £22.8m (2008: £17.3m) representing growth of 32%.

Profit before tax rose by 45% to £15.3m (2008: £10.5m) and, following an increase in the number of shares in issue after the July 2008 placing, diluted earnings per share grew by 26% to 27.15p (2008: 21.58p). Since flotation in 2005 we have delivered outstanding growth with a compound increase in earnings per share of 60% per annum.

The Group delivered another year of good cash performance, with cash inflows from operating activities before tax of £19.8m (2008: £14.4m), demonstrating the quality of our income stream. We also have a robust balance sheet with a substantial freehold property portfolio recently valued at £206m. Net debt at 30 September 2009 was £93.4m (2008: £85.3m) following further investment in organic developments and acquisitions.

Dividend

Our policy is to increase future dividends broadly in line with earnings growth. The Board has proposed a final dividend of 3.100p (2008: 2.725p) per share bringing the total dividend for the year to 4.700p (2008: 3.750p), being growth of 25%. The final dividend will be paid on 1 April 2010 to shareholders on the Register of Members on 12 March 2010.

Further growth delivered

The robust and visible nature of CareTech's business model has continued to deliver growth in the year to 30 September 2009 during a period of turbulence in economic and financial markets. Whilst local authority spending is under pressure, the non discretionary long-term and cost effective nature of our services positions CareTech to gain market share as a supplier of choice for care commissioners.

We have successfully integrated Beacon and Valeo, our two major acquisitions in the previous financial year, into an effective regional structure. Capacity has been increased by a further 122 beds during the year, adding 97 beds through organic growth across our range of specialist services and 25 through the acquisition of Lyndhurst. Across the Group we now have a capacity of 1,430 beds and occupancy in established services continued to run at 93%, providing longevity and visibility of our cash-backed income stream.

The acquisition of Lyndhurst in the first half of our financial year has enhanced the Group's "step-down" community based mental health capabilities.

Our people

I would like to thank all of our employees for their hard work during the year and to welcome those who have recently joined. On a personal note I am particularly encouraged to see growth in the depth and range of our management teams and front-line staff. The Board recognises the significant contribution made by all of our people in delivering outstanding services every day.

Outlook and prospects

We operate in a large and highly fragmented market which continued to grow significantly due to demographic and social changes. Budget constraints are fuelling demand for cost effective quality services, as local authorities balance their duty of care with the requirement to control national debt. Meanwhile, society demands innovative and appropriate specialist social care services. Approximately 20% of residential care for people with learning difficulties is still provided by the state and this presents an opportunity for further outsourcing to the private sector.

As a leading provider of high quality specialist social care services providing care pathway solutions across a range of expertise including residential, children's and adult learning difficulty services, mental health, family assessment and community support we are able to deliver effective solutions for individuals and local authorities. Also, with strong financial backing, CareTech is well placed to consolidate the market for both learning difficulties and mental health provision.

Our growing capabilities, wider geographic coverage, high quality standards and strong financial position give us confidence that the Group will continue to be a leading consolidator of specialist social care services. I look forward, with significant visibility, to further progress in 2010.

A handwritten signature in blue ink, appearing to read 'F Sheikh'.

Farouq Sheikh
Chairman
9 December 2009

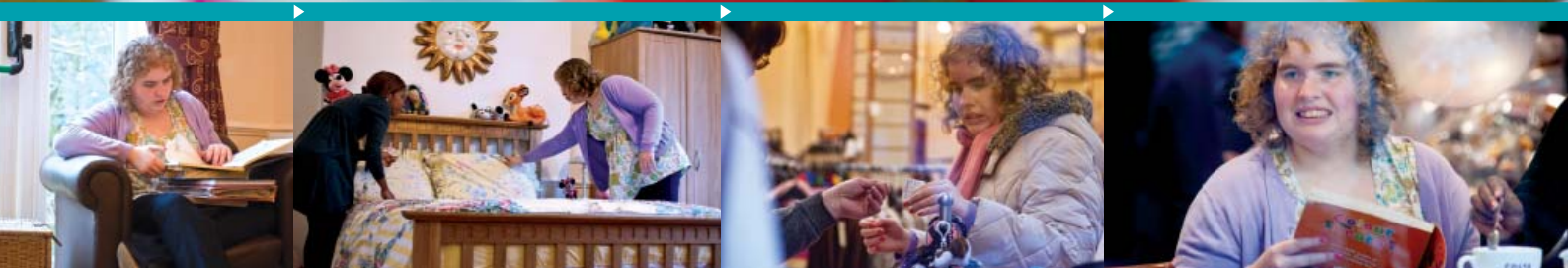
One to One Community Support

One to one community support offers an innovative solution for people living in their own homes.

Finding an ordinary life through your own home, job and relationships.

An ambitious programme that delivers the results that people want.

CareTech
pathway
in action:



LEADING CARE STANDARDS

Operating review

CareTech is a leading provider of residential care and community support to people with complex social care needs. Virtually all of our income is funded by local authority social services departments and over the past 19 years we have established a progressive and reputable care quality standard with leading edge service delivery models.



Haroon Sheikh
Chief Executive Officer

During the year to 30 September 2009 we have made considerable developments to the range of services provided across the Group. We now have bed capacity of 1,430 covering a care pathway of services including adult residential learning difficulties, children's services, supported living, mental health, family assessment and community support. Capacity increased by 122 beds during the year including 97 beds through organic growth with demand for children's residential services and supported living being particularly strong. A number of properties have also been refurbished and reconfigured during the past 12 months in order to meet the changing needs of service users and develop our range of solutions.

We have also continued to meet the regional needs of local authority commissioners and social workers, as well as facilitating further growth, by developing our internal operating structure. During 2009 we have established a divisional structure of 7 business units reporting through 2 regions – North and South. The business units are functioning well, having key personnel developing local contacts and managing matters including operations, quality, finance, human resources, training, recruitment and estates management.

Our next stage of development will see the geographical expansion of some of our services. For example, children's residential services are currently focused on the Midlands area and mental health in North London; we intend to share this developing expertise across our 7 business units.

With around 140 local authority relationships we see many opportunities to deliver the benefits of our care pathway solution across existing business units, in addition to geographical expansion.

Acquisitions

In the second half of our 2008 financial year we increased the Group's capacity by 18% through the acquisition of Beacon and Valeo. I am delighted to report that both businesses have been successfully integrated into our regional structure and are now delivering organic growth.

Across the Beacon homes we have invested resources to drive quality standards and the enlarged presence which it has provided in the South has brought valuable business opportunities.

Valeo has proven to be an excellent platform from which to build an enlarged presence in Yorkshire. A strong operational team was already in place at acquisition and further developments have delivered organic growth including supported living services in Sheffield, Rotherham and Huddersfield.

In early 2009 we responded to an increase in demand for community mental health provision by the purchase of 25 beds from Lyndhurst. Established in 1985, Lyndhurst also provides a complementary pathway into our One Step supported living business. We plan to build upon the expertise which Lyndhurst brings to the Group in order to further expand mental health and related services across our regions.

Quality and risk management

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

We have a strong focus on the quality of services that we provide with a reporting and monitoring structure in place from homes level staff, through area managers and Business Unit management. In addition, we have a comprehensive internal quality audit function where a team of 5 experienced compliance executives work under the leadership of our Quality and Performance Director.



Senior CareTech managers with passion and commitment, determined to develop and operate outstanding services for each person we support.

Attracting, developing and retaining staff is an important aspect of our business. We now have almost 3,000 employees across the Group with our quality of service and care cost performance both being influenced by the continuity of well trained staff. During 2009 we have strengthened our internal recruitment and learning and development teams which has resulted in improved staff retention, quality ratings and care cost management.

Occupancy is a key driver of financial performance. With an average age of around 42 years across our occupancy and life expectancies measured in decades, we have a secure and highly visible level of core occupancy levels. However, we do lose a small number of our service users during the year and it is always important that the resulting vacancies are filled with individuals who are compatible with the particular service. We have invested considerable attention to our service development teams who work in partnership with social workers and commissioners to identify and secure successful placements.

Strategic objectives

We remain committed to provide first class specialist social care services to people with learning difficulties (PLD) and mental health needs. Our success in this respect is measured by the fact that 81% of our registered services are rated by the Care Quality Commission and OFSTED as good or excellent. At the end of our year we had no poor-rated services.

5.5%

Estimated annual increase in number of people with learning difficulties.

BUILDING RELATIONSHIPS WITH KEY STAKEHOLDERS

Our business succeeds because we care about our relationships with key stakeholders. We take the time to consult stakeholders about what we are planning, engaging them in the development process and throughout our provision to them.

Service users and their families

Individual services have regular consultation events, usually linked to social occasions, where we gain feedback about what we are doing and improvements that are needed.

Commissioners and care managers

We always participate in local commissioners' forums and development groups as well as engaging at national level with the Department of Health and in think tank discussions. Our senior managers take a lively part in conferences across the UK.

Staff

Consultations with staff, backed by independently run surveys give a valuable insight into life at the front line. Our staff are key to the development process and ensure that quality is maintained.

Sarah Oliver
Senior Project
Worker

Rita Phillips
Team Leader



EMPLOYING THE BEST PEOPLE

Well trained, committed front-line staff. The drivers of service, quality and leaders across the social care world.

Sam Dudgeon
Support Worker

Arash Aryanpar
Support Worker



Across a tailored range of services we have a strategy to develop our person-centred approach in conjunction with the evolving commissioning strategies for specialist social care services. Our success in this respect is measured by the 93% occupancy level achieved in our established services and our range of services which currently includes:

- (i) residential care for adult PLD;
- (ii) supported living schemes;
- (iii) day centre activities;
- (iv) residential care for children;
- (v) low secure and step down community care; and
- (vi) family assessment centres.

By continuing to provide and further develop high quality services which deliver a range of person-centred solutions, we are confident that we can continue to deliver growth both organically and through selective acquisitions in order to consolidate the highly fragmented specialist markets in which we operate. During the 2009 financial year we delivered growth in EBITDA of 32% and yet, as a market leader, have less than a 2% share of the UK PLD market.

Growth and market opportunity

The UK independent sector for mental health and PLD is estimated to be worth £6.7 billion. Approximately 1.4m people in the UK have a learning difficulty and 60% of these are currently cared for by families and friends. Of these people 185,000 individuals are said to be so severely disabled that they are unable to live independently.

In terms of residential PLD care beds, there is a provision of 85,775 across the UK of which around 20% are still provided for by the public sector.

The UK PLD market is estimated to grow by up to 5.5% per annum until 2026 and MIND estimates that up to 40% of people with learning difficulties have an additional mental health issue.

Provision of services by the independent sector remains highly fragmented with the majority of places being satisfied by small operators with 3 or fewer homes.

At CareTech, we see the opportunity to be a strategic partner and important consolidator of this highly fragmented and growing market. We are developing a care pathway model of services to satisfy demand and deliver person-centred solutions. In addition, we are identifying opportunities to further expand our geographical coverage of the UK market.

Outlook

The pressures on public spending are well documented and will inevitably result in local authorities seeking cost-effective solutions to satisfy their duty of social care. We are confident that CareTech is well placed to meet the needs of service users and form strategic partnerships with local authorities to deliver high quality care pathway solutions. We look forward with confidence that the Group can deliver further growth from the opportunities that arise.

A handwritten signature in blue ink, appearing to read 'Haroon Sheikh'.

Haroon Sheikh
Chief Executive Officer
9 December 2009

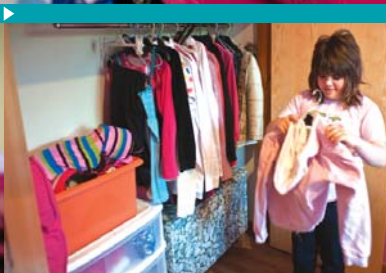


Children's homes and services

We support children and young people to find their own path in life.

It's never easy moving towards independence especially when you are away from your family home. We work sensitively and thoughtfully with the issues.

CareTech pathway in action:



STRONG PERFORMANCE

Financial performance

CareTech's strong performance during the year to 30 September 2009 is reflected in our financial results. Considerable year on year growth in revenues with significantly enhanced profit margins has continued to generate accretive returns to shareholders and robust cash flows.



David Pugh
Group Finance Director

The income statement, before amortisation and significant items, for the year is summarised below:

	2009 £m	2008 £m	Growth
Revenue	83.4	67.7	23.2%
Gross profit	33.6	26.2	
Administrative expenses	(10.8)	(8.9)	
EBITDA	22.8	17.3	32.0%
EBITDA margin	27.3%	25.5%	
Depreciation	(2.2)	(1.4)	
Share-based payments charge	(0.2)	(0.1)	
Operating profit	20.4	15.8	29.0%
Net finance costs	(5.1)	(5.3)	
Profit before tax	15.3	10.5	45.1%
Taxation	(3.1)	(2.1)	
Effective tax rate	20.3%	20.1%	
Profit for the year	12.2	8.4	44.9%
Weighted average number of diluted shares	44.9	39.0	(15.1)%
Diluted earnings per share	27.15p	21.58p	25.8%
Full year dividend per share	4.70p	3.75p	25.3%

Revenue

Revenue for the 2009 financial year of £83.4m (2008: £67.7m) was 23.2% higher than in 2008. Excluding the revenue generated in both years from our acquisition of Beacon, Valeo and Lyndhurst, strong growth in core revenues of 7.9% was delivered.

During the year we continued to experience high occupancy levels with established services reporting 93% occupancy at 30 September 2009. When new services and those under development are considered, the overall blended level of occupancy at the year end was 88% which, together with the average age of our service users being only 42 years, supports a robust and visible income stream.

No single local authority represents more than 10% of Group revenue. Annual fee reviews from local authorities in April 2009 provided an increase of around 2%. In addition to the annual fee review, the fees received by our services also change due to the needs of individuals and when vacant beds are filled.

EBITDA

The gross profit has benefited from our focus on providing well managed quality services. 81% of our registered care homes are rated as good or excellent and we continue to focus on the effective and efficient management of care costs including the control of agency staffing costs and utilities.

Administrative expenses (before depreciation and share-based payments charge) of £10.8m during 2009 were £1.9m higher than the previous year and represent 13.0% (2008: 13.3%) of Group revenue. In the first few months of our 2009 financial year we established an efficient organisational structure with 2 effective regional teams being responsible for fully operational business units meeting the local needs of our clients. Alongside the acquisition of Lyndhurst we also identified an opportunity to extend our mental health capabilities. We are confident that both of these initiatives position us well for delivering further growth across our range of services and geographical coverage.

EBITDA for the 2009 financial year, before amortisation and significant items, of £22.8m (2008: £17.3m) was 32% higher than in 2008. Excluding the EBITDA generated in both years from the acquisition of Beacon, Valeo and Lyndhurst our core EBITDA grew strongly by 11.4%.

The 2009 Group EBITDA margin of 27.3% (2008: 25.5%) has benefited from an enhanced gross margin explained above. Also, the EBITDA growth has been delivered from a scaleable overhead base. Administrative expenses and rental costs of £10.8m (2008: £8.9m) continued to run at 13% of revenue whilst supporting significant expansion in our care pathway range of services across our regions. Supported living beds now constitute almost 20% of the Group's occupancy and the number of properties rented by CareTech has increased in response to this demand.

Operating profit and profit before tax

We have continued to invest capital in order to provide quality services and deliver further growth with this being reflected by an increase in our depreciation charge for 2009. However, Group operating profit of £20.4m (2008: £15.8m) was 29% higher than 2008.

Net finance costs (before significant items) during 2009 of £5.1m (2008: £5.3m) benefited from lower interest rates incurred on net debt compared to the previous year and is 4.5 times covered by EBITDA which is comfortably ahead of our bank covenant of 2.25 times.

The profit before tax, before amortisation and significant items, increase of 45.1% to £15.3m (2008: £10.5m) includes strong organic

growth from both existing operations and recent acquisitions together with the full year benefit of businesses acquired during 2008.

Taxation and diluted earnings per share

The 2009 charge for taxation of £3.1m represents an effective tax rate of 20.3% (2008: 20.1%). A number of opportunities have been identified, particularly with regard to capital allowances, which may have a favourable impact on the future effective tax rate.

We are pleased to report that diluted earnings per share, before amortisation and significant items, in 2009 of 27.15p (2008: 21.58p) has grown by 25.8%. The accretive return to shareholders is particularly impressive considering a 15.1% increase in the number of shares in issue following the placing of 7.1m ordinary shares in July 2008.

Dividends

The Board has proposed a final dividend of 3.100p (2008: 2.725p) per share which, together with an interim dividend of 1.600p, brings the dividend for the 2009 year to 4.700p (2008: 3.750p) representing growth of 25.3%. Dividend cover for 2009 based upon diluted earnings per share, before amortisation and significant items, was 5.8 times (2008: 5.8 times).

Amortisation and significant items

In order to provide a clearer understanding of CareTech's performance the amortisation of intangible assets and significant items are disclosed separately on the face of our income statement and are fully explained in note 4 to the financial statements.

A consistent approach has been adopted in the income statement for significant items during the 2008 and 2009 financial years. However, a restatement of prior year figures has been applied in order to account for minimum future lease payment uplifts on a straight-line basis in accordance with IAS 17, a practice which has been adopted by our industry peer group.

Cash flow and net debt

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

	2009 £m	2008 £m
EBITDA before amortisation and significant items	22.8	17.3
Amortisation and significant items	–	(0.7)
Increase in working capital	(3.0)	(2.2)
Cash inflows from operating activities	19.8	14.4
Tax paid	(2.2)	(0.7)
Interest paid	(5.7)	(5.3)
Dividends paid	(1.9)	(1.1)
Proceeds from the issue of shares	0.3	29.0
Acquisitions	(8.7)	(31.8)
Capital expenditure	(9.7)	(19.5)
	(8.1)	(15.0)
Opening net debt	(85.3)	(70.3)
Closing net debt	(93.4)	(85.3)

Net debt has increased by £8.1m to £93.4m (2008: £85.3m) during the 2009 financial year mainly due to an investment of £18.4m in acquisitions and capital expenditure which is all expansionary other than approximately £3m of capital to maintain the core portfolio of assets. Excluding expansionary investment the Group generated net surplus funds of £7.3m.

Working capital continues to increase as the scale of our operations expands. The £3.0m (2008: £2.2m) working capital increase is also a reflection of the trend for local authorities to pay on credit terms, particularly in respect of supported living services.

Tax paid of £2.2m (2008: £0.7m) is lower than the current charge in the income statement mainly due to the availability of capital allowances in excess of our depreciation charge, a feature which will continue as we invest in further growth.

Interest paid differs to net finance costs in the income statement due to rollover periods crossing September year ends together with the non-cash revaluation of interest rate hedging instruments classified as significant items.

Dividends paid of £1.9m include the final payment declared for our 2008 year end and the 2009 interim payment. We received proceeds of £0.3m for the issue of shares to satisfy employee exercises under share option schemes.

£8.7m was invested in acquisitions during the year, including £2.8m to satisfy deferred consideration payable from the Beacon and Valeo acquisitions of 2008. Lyndhurst was acquired in January 2009 for cash consideration of £5.9m including professional fees, this being an important strategic development into the provision of low security, community based, step-down mental health services. All of these acquisitions have been successfully integrated into the Group and are generating accretive returns at least in line with our expectations.

Bed capacity has been increased by organic additions of 97 during the 2009 financial year, which is again ahead of market expectations. Approximately £7.2m has been invested during the year to deliver increased bed capacity together with around £2.5m to maintain our core portfolio of assets.

Financial position

We continue to enjoy the flexibility of development and financial strength that our substantial freehold property portfolio provides. As such the key features of our balance sheet are our property, plant and equipment assets, at net book value, of £160.3m and net debt of £93.4m.


Our freehold property portfolio, held in the balance sheet at a net book value of £146.5m was recently independently valued at £206m on an existing use market value basis. Net debt of £93.4m represents a loan to value ratio of 45% at 30 September 2009 which is comfortably within our bank covenant requirement of 70%.

The increase in net debt to £93.4m has been explained earlier and leaves £17.9m of headroom against our financing facilities of £111.3m at 30 September 2009. Net debt is 4.1 times our reported EBITDA of £22.8m during the year and is significantly within our bank covenant of 5.5 times.

Since the year end we have issued 900,000 ordinary shares to satisfy £3.5m of deferred consideration relating to our acquisition of Beacon in 2008. In addition, £3.4m of remaining consideration is expected to be settled during our 2010 financial year.

Outlook

CareTech's strong asset backed and modestly geared balance sheet, together with a highly predictable income stream and cash flow, provides the opportunity to fund further organic growth and strategic acquisitions. With a clear focus on the provision of high quality services from an efficient operating structure we are well placed as a leading consolidator of our highly fragmented markets.



David Pugh
Group Finance Director
9 December 2009

SUSTAINABLE RELATIONSHIPS

The driving force underpinning CareTech's whole operation is to provide the highest quality of care to our service users. The nature of our business means we are often an integral part of the communities we serve and the need to foster and develop sustainable relationships with our stakeholders is a key priority.



Being a socially responsible organisation with a commitment to developing our ethical standards is a core aim.

Looking after our service users

Our service users are the focus of the business and looking after their needs is a major objective.

We strive to maintain the utmost ethical standards in business and this is acutely the case regarding our service users who are very often the most vulnerable of people in society. We see the relationship we nurture with each of them as very much a partnership of mutual interest and respect, with our person-centred approach ensuring their interests are safeguarded at all times.

PROMOTING AN OPEN CULTURE

Developing a culture that promotes inclusivity and confidence in our workforce is a core aim.

Farida Abdulahi
Senior Project Worker

Kerry Rocket
Project Manager



For them, we aim to:

- provide modern care and support;
- maximise independence;
- support relationships;
- encourage education;
- seek purposeful activity, including employment where possible;
- promote choice; and
- encourage them to "move on" wherever helpful to their well-being.

Looking after the environment

An environmental policy has been developed. In furtherance of sustainability and the drive to maximise ethical standards, the Company will aim to:

- adopt and apply the principles of sustainable development by meeting the needs of the present without compromising the ability of future generations to meet their own needs;
- strive for the adoption of the highest available environmental standards in all areas of our operations;
- minimise waste production in all areas of the organisation and aim for waste-free processes;
- purchase, where feasible, sustainable products for use in the organisation's operations, (recycled or low-environmental-impact products), and energy from renewable sources;
- expect similar environmental standards from any partners involved in our work;
- publicise our environmental position;
- encourage employee involvement in environmental action;
- adopt an environmentally sound transport strategy;
- include environmental and ethical considerations in making investment decisions, where appropriate; and
- assist in formulating solutions to environmental problems and support the development of public policy.

In our quest to support the most disabled adults and children in society, we endeavour to reduce our carbon footprint in all commercial areas, include the promotion of recycling initiatives, the development of a carbon offset scheme for paper usage, the use of public transport where feasible and to strive for energy efficiency.



Looking out for our staff

We are committed to ensuring employees share in the success of the Group and fully appreciate that Group performance is affected by how we view them and they us.

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

Our sharesave share option scheme, which offers new invitations regularly, has been in existence for several years and is available to our employees. This participation, along with regular executive share option awards, contributes to the fulfilment of our desire to reward staff loyalty, diligence and effort.

Inclusivity is fostered by a keen desire to maintain effective communication with our workforce. We have a newsletter publication quarterly detailing Group events and achievements as well as regular staff surveys and team briefings.

We want our employees to thrive and believe that fostering a positive workplace culture enables this to happen. Supporting our workforce with regular supervision, training and clear career development programmes promotes staff continuity and leads to improved standards of care quality.

Quality and safety foremost

We care about getting health and safety right for all our stakeholders and are proud to say that the Group has never been prosecuted for a health and safety breach.

Regulation is vigorously applied with routine and regular inspections being made by the Care Quality Commission ("CQC") and OFSTED. Our own extensive and highly experienced internal quality team undertake a programme of frequent inspections and assessments. Feedback is given in a constructive manner backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice and procedures are maintained.

CareTech has a strong history in the field of health and safety and policies and procedures are in place to further our aim of providing a safe and secure working and home environment for all our staff and service users.

Looking after our communities

Doing business the right way is of fundamental importance to us. Our care services continue to be an integral part of the communities they serve and with this prominence we endeavour to uphold the highest of standards to further develop these relationships. In support of the community infrastructure, we are:

- working in partnership with the National Trust and local authorities to restore derelict buildings;
- working with community associations;
- working with MENCAP to bring life to a redundant day-centre; and
- encouraging service users to support local churches and charitable events.

As an organisation we are never complacent and as we continue to grow the requirement to maintain the highest of ethical standards is an important objective. We feel that further cementing our relationships with stakeholders in the communities we operate and working continuously to improve our systems and processes will contribute greatly to the achievement of this objective.

Board of Directors



1. Farouq Sheikh

Executive Chairman (aged 51)

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.

2. Haroon Sheikh BSc

Chief Executive Officer (aged 53)

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

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

3. David Pugh BSc, Econ (Hons), AMCT, FCA

Group Finance Director (aged 48)

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 13 years.

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

4. Stewart Wallace

Strategic Director (aged 60)

Stewart Wallace qualified as a social worker in 1971, subsequently obtaining an MA in Social Policy. He gained wide experience in London as a practitioner, policy advisor and senior manager before joining Harlow Council as head of community services in 1986. In 1992, he was appointed director of development in what is now the Surrey Oaklands NHS Trust. Subsequently he was appointed general manager of the Trust's learning disability division.

He returned to social services in 1997 as a senior operations manager before joining the Board of Care Solutions Limited, a Care UK plc subsidiary, as development director. He joined CareTech in November 2000 as Development Director. Stewart is a non-executive director of an NHS Trust.

5. Dr Richard Steeves

Non-executive Deputy Chairman (aged 48)

Richard is the founder and Chief Executive of Synergy Health plc. Previously he was corporate development manager for Braithwaite plc, a plant hire company, and associate consultant with Strategic Consultants, 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. Richard is also a Companion of the Chartered Management Institute.

6. Karl Monaghan

Non-executive Director (aged 47)

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.

7. Christa Echte

Non-executive Director (aged 51)

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.

Directors' Report

The directors present their report and the audited Group financial statements for the year ended 30 September 2009.

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 Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's Statement on page 4, the Chief Executive's Statement on pages 6 to 8, the Finance Review on pages 10 and 11, Corporate Social Responsibility information on pages 12 and 13 and the Corporate Governance Report on pages 17 and 18 which are incorporated in this report by reference. These reports also include details of the performance of the Group during the year ended 30 September 2009 and its prospects for the future.

Key performance indicators are set out in the "Highlights" on the inside front cover. 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.

● 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 train and 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 Care Quality Commission 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

The Group's operations expose it to a variety of financial risks including interest rate risk and credit risk. Further details are set out in note 23 to the financial statements.

Dividends

Dividends of £1,204,283 and £714,036 (total £1,918,319) have been paid during the year. The directors propose a final dividend of 3.10p per share (2008: 2.725p) subject to approval at the forthcoming Annual General Meeting.

Share listing

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Company's share capital, including movements during the year are set out in note 19 to the financial statements.

Charitable and political donations

No direct charitable or political donations were made during the year.

Financial instruments

The Group is exposed to a combination of price risk, credit risk, interest rate risk and cash flow risk. 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.

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 24 days (2008: 12 days). The Parent Company, CareTech Holdings PLC, is a holding company and does not trade.

Employees

The directors recognise the benefits which arise from keeping employees informed of the Group's progress and plans and through their participation in the Group's performance. The Group is therefore committed to providing its employees with information on a regular basis, to consulting 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.

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

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

Directors' Report continued

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting dated 4 March 2009, the directors were granted authority to allot shares with an aggregate nominal value of up to the value of one third of the share capital of the Company.

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

Resolutions for the renewal of both of the above will be proposed at the forthcoming Annual General Meeting, further details of which, together with explanations of the resolutions to be proposed at the meeting, appear in the "Notice of AGM and exploratory circular to Shareholders" which is being sent to Shareholders at the same time as this report.

Substantial shareholdings

As at 9 December 2009, the Company had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Company, other than those in respect of directors which are set out in the Remuneration Report on page 20.

	No. of shares	Percentage
Carmignac Gestion	4,302,719	9.4%
Blackrock Investment Management	3,278,261	7.2%
Aegon	2,736,057	6.0%
Standard Life Investments	2,186,530	4.8%
F&C Asset Management	1,841,780	4.0%
Old Mutual	1,511,000	3.3%

Directors

The names of the current directors together with brief biographical details are shown on page 14.

In accordance with the articles of association, Stewart Wallace and Karl Monaghan retire by rotation and, being eligible, offer themselves for re-election.

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

Farouq Sheikh
Richard Steeves
Haroon Sheikh
David Spink (resigned 31 December 2008)
David Pugh (appointed 9 December 2008)
Stewart Wallace
Karl Monaghan
Christa Echte (appointed 15 October 2008)

The terms of the directors' service contracts and details of the directors' interests in the shares of the Company are disclosed in the Remuneration Report commencing on page 19.

Directors' insurance

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

Auditors

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

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's 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.



David Pugh
Company Secretary
9 December 2009

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

Corporate Governance Report

Compliance with Combined Code

CareTech is committed to achieving the highest standards of business practice, ethics and professionalism throughout its national operations.

The Company's shares are traded on AIM and, as such, the Company is under no obligation to comply with the full requirements of the Combined Code on Corporate Governance published in June 2006.

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

The Board of directors

At 30 September 2009 the Board comprised the Executive Chairman, the Chief Executive, the Group Finance Director, the Strategic Director and 3 non-executive directors. The directors' biographies appear on page 14 and details their experience and suitability for leading and managing the Group.

Richard Steeves, Karl Monaghan and Christa Echtele are the 3 non-executive directors and the Board considers each of them as independent for the purpose of the Combined Code. Richard Steeves is the non-executive Deputy Chairman and the senior independent non-executive director.

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

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

Conflicts of interest

At the Annual General Meeting held in 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 power of authorisation of conflicts are operated effectively and that procedures have been followed.

Board meetings

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

The directors attended the following meetings in the year to 30 September 2009.

	Board	Audit Committee	Remuneration Committee
Farouq Sheikh	10	3	–
Richard Steeves	10	3	1
Haroon Sheikh	10	–	–
David Spink (resigned 31 December 2008)	1	–	–
David Pugh (appointed 9 December 2008)	10	–	–
Stewart Wallace	9	–	–
Karl Monaghan	9	3	1
Christa Echtele (appointed 15 October 2008)	10	3	1

Board decision-making responsibilities

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

- financial reporting and controls including statutory matters such as the approval of final and interim financial statements and dividend declarations;
- Board membership and other senior key personnel appointments;
- review of corporate governance arrangements;
- Group strategy matters including the approval of annual budgets, significant acquisitions and disposals;
- review and supervision of treasury and financial policies; and
- Shareholder communications.

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

Audit Committee

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

Corporate Governance Report

continued

Remuneration Committee

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 19 to 21. Also detailed in that report are directors' remuneration, shareholdings and share option scheme information.

Relations with Shareholders

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

It recognises that the views of both institutional and private Shareholders are important and that they have an interest in the Company's strategy, reputation and performance.

The Executive Chairman has overall responsibility for ensuring this communication is effectively discharged and for making the Board fully aware of key Shareholders' views, comments and opinions. General presentations to major Shareholders following the publication of the Group's annual and interim results are conducted by the Executive Chairman and the Group Finance Director as are regular meetings with fund managers and investment analysts through the year.

All Shareholders are encouraged to attend the Company's Annual General Meeting, which all Board members attend, as this provides an opportunity to address questions to the directors.

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

Internal controls and risk management

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 year 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 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.

Going concern

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

By order of the Board



David Pugh

Company Secretary
9 December 2009

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

Remuneration Report

This report is approved by the Board and follows guidance laid down in the Combined Code.

Remuneration Committee

The Remuneration Committee comprises all 3 non-executive directors, Richard Steeves (Chairman), Karl Monaghan and Christa Echte and meets at least once 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.

Remuneration policy

It is the Company's policy to provide for each of its executive directors and key personnel 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.

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

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

The following comprised the principal elements of remuneration for executive directors and executive management in the year under review:

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

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

Directors' service agreements

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

The non-executive directors have each been appointed under contracts which are subject to 3 months' notice of termination on either side.

External appointments

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

Directors' remuneration (audited)

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

Year to 30 September	Salary & fees		Benefits		Annual bonus		Total		Pension	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Current Directors										
Farouq Sheikh	235	233	17	21	37	30	289	284	6	8
Haroon Sheikh	185	185	14	13	50	43	249	241	9	6
Stewart Wallace ¹	76	72	8	12	8	18	92	102	3	6
David Pugh ²	124	–	41	–	38	–	203	–	–	–
Richard Steeves	39	35	–	–	–	–	39	35	–	–
Karl Monaghan	33	28	–	–	–	–	33	28	–	–
Christa Echte ³	32	–	–	–	–	–	32	–	–	–
Former Directors										
Richard Midmer ⁴	–	22	–	–	–	–	–	22	–	–
David Spink ⁵	27	123	4	12	–	27	31	162	2	8
Total	751	698	84	58	133	118	968	874	20	28

¹ Stewart Wallace is contracted on a 4 day per week basis.

² Appointed as director on 9 December 2008.

³ Appointed as director on 15 October 2008.

⁴ Resigned as director on 8 July 2008.

⁵ Resigned as director on 31 December 2008.

Remuneration Report

continued

Directors' interests

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

	30 September 2009 Number of Ordinary 0.5p Shares	30 September 2008 Number of Ordinary 0.5p Shares
Westminster Holdings Limited ¹	10,422,500	10,422,500
Cosaraf Trust ²	2,060,000	2,060,000
Cosaraf Pension Fund ³	20,000	20,000
Farouq Sheikh	485,000	485,000
Haroon Sheikh	485,000	485,000
Stewart Wallace	473,374	786,250
Autovibe Limited ⁴	319,750	–
David Pugh	10,000	–
Richard Steeves	15,625	15,625
Karl Monaghan	31,250	31,250
Paragon (Premier) Properties Limited ⁵	5,916	–

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

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

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

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

⁵ Paragon (Premier) Properties Limited is a company wholly-owned by Christa Echtle, non-executive director, and her husband.

Longer-term incentives

Employees' share trust

An employees' share trust ("the Trust") was established in 2005 to acquire shares in CareTech Holdings PLC and hold them for the benefit of key employees and participants in the share option schemes. At 30 September 2009, the Trust held 167,794 of the Company's shares, being 0.37% of the total issued ordinary share capital.

Share options (audited)

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

Options granted under the above schemes, together with those remaining at 30 September 2009 are as follows:

Date of grant	Scheme	Options granted	Options lapsed	Options exercised	Options remaining 30 September 2009	Option price (pence)
13 October 2005 ¹	Approved Scheme	627,375	(282,085)	(178,736)	166,554	169
7 November 2005 ¹	SAYE Scheme	186,033	(43,519)	(135,639)	6,875	136
2 August 2006 ¹	Approved Scheme	52,427	(43,764)	(3,424)	5,239	292
2 August 2006 ¹	Unapproved Scheme	8,220	(8,220)	–	–	292
17 January 2007	Approved Scheme	162,885	(90,226)	–	72,659	345
17 January 2007	Unapproved Scheme	18,263	(2,139)	–	16,124	345
21 March 2007	Approved Scheme	6,077	–	–	6,077	452
1 February 2008	SAYE Scheme	101,397	(57,912)	–	43,485	440
2 May 2008	Approved Scheme	114,070	(39,660)	–	74,410	410
2 May 2008	Unapproved Scheme	23,843	(6,713)	–	17,130	410
14 August 2009 ²	Unapproved Scheme	92,308	–	–	92,308	0.5
4 August 2009	Approved Scheme	191,121	(2,454)	–	188,667	332.5
4 August 2009	Unapproved Scheme	165,050	–	–	165,050	332.5
12 August 2009	SAYE Scheme	202,069	–	–	202,069	254

¹ Scheme grant of options which have reached maturity during the year.

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

Over the performance period, if:

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

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

Directors' share options

David Pugh holds options over 3,572 (2008: none) ordinary shares of 0.5p in the Company's SAYE scheme, 9,022 (2008: none) ordinary shares of 0.5p in the Company's Approved scheme and 83,286 (2008: none) ordinary shares of 0.5p in the Company's Unapproved scheme.

Call option agreements

During the year to 30 September 2009, the Company has been party to 2 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 2008	Options lapsed 12 October 2008	At 30 September 2009
David Spink	191,625	(191,625)	–
Stewart Wallace	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.

By order of the Board



Richard Steeves

Chairman of the Remuneration Committee
9 December 2009

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

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report, the Corporate Governance Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

Independent Auditors' Report to the Members of CareTech Holdings PLC

We have audited the financial statements of CareTech Holdings PLC for the year ended 30 September 2009 which comprise the consolidated income statement, the consolidated and Parent Company balance sheets, the consolidated and Parent Company cash flow statements, the consolidated and Parent Company statements of recognised income and expenses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

GA Watts (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
9 December 2009

Consolidated Income Statement

for the year ended 30 September 2009

	Note	2009			2008 Restated ⁽ⁱ⁾		
		Before amortisation and significant items £000	Amortisation and significant items ⁽ⁱⁱ⁾ £000	Total £000	Before amortisation and significant items £000	Amortisation and significant items ⁽ⁱⁱ⁾ £000	Total £000
Revenue		83,421	–	83,421	67,713	–	67,713
Cost of sales		(49,824)	–	(49,824)	(41,480)	–	(41,480)
Gross profit		33,597	–	33,597	26,233	–	26,233
Administrative expenses		(13,227)	(1,994)	(15,221)	(10,448)	(2,715)	(13,163)
Operating profit		20,370	(1,994)	18,376	15,785	(2,715)	13,070
EBITDA ⁽ⁱⁱ⁾		22,779	–	22,779	17,254	–	17,254
Depreciation	10	(2,200)	–	(2,200)	(1,356)	–	(1,356)
Amortisation of intangible assets	11	–	(340)	(340)	–	(218)	(218)
Share-based payments charge		(209)	–	(209)	(113)	–	(113)
Significant items	4	–	(1,654)	(1,654)	–	(2,497)	(2,497)
Operating profit		20,370	(1,994)	18,376	15,785	(2,715)	13,070
Financial income	6	15	–	15	71	–	71
Financial expenses	4,6	(5,091)	(6,491)	(11,582)	(5,318)	(1,915)	(7,233)
Profit before tax		15,294	(8,485)	6,809	10,538	(4,630)	5,908
Taxation	4,7	(3,103)	1,087	(2,016)	(2,122)	228	(1,894)
Profit for the year attributable to equity shareholders of the parent		12,191	(7,398)	4,793	8,416	(4,402)	4,014
Earnings per share							
Basic	8,9	27.28p		10.73p	21.82p		10.41p
Diluted	8,9	27.15p		10.67p	21.58p		10.29p

(i) See note 4.

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

Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2009

	2009 £000	Restated ⁽ⁱ⁾ 2008 £000
Effective portion of changes in fair value of cash flow hedges	–	(359)
Net change in fair value of cash flow hedges transferred to profit or loss	–	564
Deferred tax on hedge reserve movement	–	(61)
Net income recognised directly in equity	–	144
Profit for the year	4,793	4,014
Total recognised income and expense attributable to equity shareholders of the parent	4,793	4,158

(i) See note 4.

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Consolidated Balance Sheet

at 30 September 2009

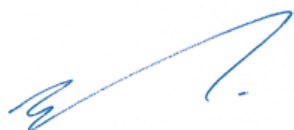
	Note	2009 £000	Restated ⁽ⁱ⁾ 2008 £000
Non-current assets			
Property, plant and equipment	10	160,330	148,576
Other intangible assets	11	2,619	1,149
Goodwill	11	15,954	15,574
		178,903	165,299
Current assets			
Trade and other receivables	13	10,397	8,933
Cash and cash equivalents	14	4,321	2,126
Tax recoverable		464	674
		15,182	11,733
Total assets		194,085	177,032
Current liabilities			
Loans and borrowings	15	6,125	350
Trade and other payables	16	18,741	17,512
Deferred and contingent consideration payable		6,868	8,361
Deferred income		4,467	5,335
		36,201	31,558
Non-current liabilities			
Loans and borrowings	15	91,585	87,089
Deferred tax liabilities	17	12,710	13,102
Derivative financial instruments	23	6,175	1,264
		110,470	101,455
Total liabilities		146,671	133,013
Net assets		47,414	44,019
Equity attributable to equity shareholders of the parent			
Share capital	19	225	223
Share premium	20	38,852	38,543
Merger reserve	20	5,037	5,037
Retained earnings	20	3,300	216
Total equity		47,414	44,019

(i) See note 4.

These financial statements were approved by the Board of directors on 9 December 2009 and were signed on its behalf by:



F. Sheikh
Chairman



D. R. Pugh
Group Finance Director

Company number: 4457287

Consolidated Cash Flow Statement

for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Profit before tax		6,809	5,908
Adjustments for:			
Financial income		(15)	(71)
Financial expenses		11,582	7,233
Adjustments for minimum future lease payment uplifts		1,654	1,746
Depreciation	10	2,200	1,356
Amortisation	11	340	218
Share-based payments charge		209	113
Interest received		15	71
Operating cash flows before movement in working capital		22,794	16,574
Increase in trade and other receivables		(2,332)	(2,160)
Decrease in trade and other payables		(682)	(38)
Cash inflows from operating activities		19,780	14,376
Tax paid		(2,198)	(670)
Net cash from operating activities		17,582	13,706
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	(8,711)	(30,637)
Acquisition of property, plant and equipment		(6,969)	(18,181)
Acquisition of intangible assets		(1,128)	–
Acquisition of software	11	(208)	(419)
Net cash used in investing activities		(17,016)	(49,237)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)		311	29,012
Proceeds from new loan (net of costs)		10,747	96,454
Interest paid		(5,733)	(5,318)
Repayment of borrowings		(1,200)	(82,024)
Payment of finance lease liabilities		(578)	(445)
Dividends paid	21	(1,918)	(1,115)
Net cash from financing activities		1,629	36,564
Net increase in cash and cash equivalents		2,195	1,033
Cash and cash equivalents at start of year		2,126	1,093
Cash and cash equivalents at 30 September	14	4,321	2,126
Net debt in the balance sheet comprises:			
Cash at bank and in hand		4,321	2,126
Bank loans		(95,724)	(86,177)
Finance lease and hire purchase contracts		(1,986)	(1,262)
Net debt at 30 September		(93,389)	(85,313)

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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 2009 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 2009.

2. Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

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

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

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

		Effective for periods beginning on or after
Endorsed		
IAS 1	Presentation of Financial Statements (revised)	1 January 2009
IAS 23	Borrowing Costs (revised)	1 January 2009*
IFRS 8	Operating Segments	1 January 2009
IFRIC 12	Service concession arrangements	1 January 2009
IFRS 2	Share-based payment; vesting conditions and cancellations (revised)	1 January 2009
Unendorsed		
IFRS 3	Business Combinations (revised)	1 July 2009
IAS 27	Consolidated and Separate Financial Statements (revised)	1 July 2009
IAS 1	Presentation of Financial Statements (revised)	1 January 2009
IAS 23	Borrowing Costs (revised)	1 January 2009

* Applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing 1 October 2009 and/or 1 October 2010 as appropriate and that their adoption will have no material impact on the financial statements of the Group other than as follows:

- IAS 1 "presentation and financial statements – a revised presentation". This requires the presentation of a new statement of comprehensive income and also requires a consolidated statement of changes by equity as a primary statement. Since this change is presentational only there is no impact on profit and earnings per share;
- IFRS 8 "operating segments". This requires operating segments to be identified on the basis of information that internally is provided to the Group's chief operating decision-maker. Since this change is presentational only, there is no impact on profit and earnings per share;
- IFRS 3 Business combinations – revised. It is likely that more transactions will meet the revised definition of a business combination and will also lead to more transaction costs being expensed; and
- IAS 23 Borrowing costs – revised. Interest costs on qualifying assets will be capitalised.

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 28.

(b) Measurement convention

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Chief Executive's Statement and Finance Review on pages 4 to 11. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Finance Review and in notes 15 and 23 to the financial statements which include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

2. Accounting policies continued

(c) Basis of consolidation

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

(d) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. 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.

(e) 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.

(f) 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.

Costs incurred on business combinations which are expected to complete after 1 October 2009 when revised IFRS 3 will apply are carried forward at 30 September 2009, these total £204,000.

2. Accounting policies continued

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.

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.

(g) Cash and cash equivalents

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

(h) Impairment (excluding deferred tax assets)

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

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

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

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

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.

(i) Interest-bearing borrowings

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

(j) Employee benefits

Defined contribution plans

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

2. Accounting policies continued

Short-term benefits

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

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to 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.

(k) Provisions

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

(l) Revenue

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

(m) Expenses

Finance lease payments

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

Significant items

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

Financing costs

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

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

(n) Operating leases

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

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

(o) Taxation

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

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

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

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

2. Accounting policies continued

(p) EBITDA and adjusted earnings per share

EBITDA as defined on the inside front cover and page 24 is the key profit measure used by the Board to assess the trading performance of the Group as a whole.

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

(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

	2009 £000	2008 £000
Audit of these financial statements	55	35
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	117	160
Other services relating to taxation	110	80
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
All other services	91	46

4. Significant items

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

	Note	2009 £000	2008 £000
Acquisition integration costs	(i)	–	456
Business restructuring costs	(ii)	–	295
Adjustments for minimum future lease payment uplifts	(iii)	1,654	1,746
Included in administrative expenses		1,654	2,497
Loan finance costs written off on refinancing	(iv)	–	650
Charges relating to derivative financial instruments	(v)	6,491	1,265
Included in financial expenses		6,491	1,915
Significant items tax effect (note 7):			
Current tax	(vi)	(463)	(891)
Deferred tax	(vii)	(624)	663
		(1,087)	(228)

- (i) Following the acquisitions of the Beacon and Valeo businesses during the year ended 30 September 2008 the Group incurred a number of costs relating to reorganisation as these businesses were integrated into the Group.
- (ii) During the year ended 30 September 2008 the Group incurred costs as it restructured its business with respect to agency staff costs. To address this, non-recurring costs were incurred to establish a wider pool of Group employees.
- (iii) Adjustments relate to non-cash additional charges for minimum lease payment uplifts explained further in (viii) below.
- (iv) In April 2008, the Group completed a new banking facility agreement. The unamortised element of loan fee costs on the replaced debt was therefore fully written off.
- (v) Charges relating to derivative financial instruments represent the movements during the year in the fair value of the Group's interest rate swaps which do not qualify for hedge accounting.
- (vi) Represents the current tax on items (i), (ii), (iii) and (iv) above.
- (vii) A deferred tax credit of £1,375,000 (30 September 2008: £354,000) arises in respect of a charge relating to derivative financial instruments in (v) above. In addition, a charge arises from the effects of full provision for deferred tax under IAS 12 amounting to £751,000 (2008: £1,017,000).
- (viii) During the year the directors reviewed the accounting policies and practice in respect of International Financial Reporting Standards and the accounting for operating leases in accordance with IAS17, specifically considering the different practice adopted by its industry peer group. In the current financial year and in light of the adoption of IFRSs in each of the subsidiaries, the Group has corrected for an error in the transition to IFRS on 1 October 2006 and adopted what it considers to be a more appropriate basis of accounting for operating leases under IAS17 which incorporates recognising the effect of minimum future lease payment uplifts on a straight-line basis. Inconsistencies in the way that certain subsidiaries classified items within cost of sales and administrative expenses, accruals, prepayments, accrued and deferred income have also been adjusted and reclassified. There is no direct cash effect of these changes. However, the adjustments will result in accelerated corporation tax relief.

4. Significant items continued

The impact of prior year adjustments made, in order to adopt and correct the financial statements for these adjustments, is as follows:

Income statement for the year ended 30 September 2008:

	Previously stated			Adjustments	Restated		
	Before amortisation and significant items £000	Amortisation and significant items £000	Total £000		Before amortisation and significant items £000	Amortisation and significant items £000	Total £000
Cost of sales	(47,196)	–	(47,196)	5,716	(41,480)	–	(41,480)
Administrative expenses	(4,732)	(969)	(5,701)	(7,462)	(10,448)	(2,715)	(13,163)
Profit before tax	10,538	(2,884)	7,654	(1,746)	10,538	(4,630)	5,908
Taxation	(2,122)	(261)	(2,383)	489	(2,122)	228	(1,894)
Profit after tax	8,416	(3,145)	5,271	(1,257)	8,416	(4,402)	4,014
EPS – basic	21.82p		13.67p		21.82p		10.41p
– diluted	21.58p		13.52p		21.58p		10.29p

Balance sheets:

	Balance sheet 30 September 2008			Balance sheet 30 September 2007		
	Previously stated £000	Adjustment £000	Restated £000	Previously stated £000	Adjustment £000	Restated £000
Current assets:						
Trade and other receivables	11,433	(2,500)	8,933	8,394	(2,500)	5,894
Tax receivable	–	674	674	–	1,229	1,229
Current liabilities:						
Tax payable	(3,208)	3,208	–	(2,051)	2,051	–
Trade and other payables	(3,981)	(13,531)	(17,512)	(3,244)	(12,154)	(15,398)
Deferred income	(7,792)	2,457	(5,335)	(7,213)	2,939	(4,274)
Net assets	53,711	(9,692)	44,019	17,245	(8,435)	8,810

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	
	2009	2008
Residential care staff	2,390	1,933
Maintenance	23	19
Management and administration	157	131
	2,570	2,083

The aggregate payroll costs of these persons were as follows:

	2009 £000	2008 £000
Wages and salaries	36,514	29,782
Share-based payments charge (note 20)	209	113
Social security costs	3,140	2,575
Other pension costs	88	83
	39,951	32,553

6. Finance income and expenses

	2009 £000	2008 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss:		
On bank deposits	15	71
Other interest	–	–
	15	71

Notes continued

6. Finance income and expenses continued

	2009 £000	2008 £000
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	4,813	5,198
Finance charges in respect of finance leases	278	120
Financial expenses before significant items	5,091	5,318
Derivative financial instruments (note 4)	6,491	1,265
Loan finance costs written off on refinancing during the year (note 4)	–	650
	11,582	7,233

7. Taxation

(a) Recognised in the income statement

	2009			2008		
	Before significant items £000	Significant items £000	Total £000	Before significant items £000	Significant items £000	Total £000
Current tax expense						
Current year	3,095	–	3,095	2,047	–	2,047
Current tax adjustment for significant items (note 4)	–	(463)	(463)	–	(891)	(891)
Adjustment for prior years	(224)	–	(224)	–	–	–
Total current tax	2,871	(463)	2,408	2,047	(891)	1,156
Deferred tax expense						
Current year	232	751	983	75	1,017	1,092
Deferred tax adjustment for significant items (note 4)	–	(1,375)	(1,375)	–	(354)	(354)
Total deferred tax	232	(624)	(392)	75	663	738
Total tax in income statement	3,103	(1,087)	2,016	2,122	(228)	1,894

(b) Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit before tax for the period	6,809	5,908
Tax using the UK corporation tax rate of 28% (2008: 29%)	1,907	1,713
Non-deductible expenses	420	163
Over provided in prior years	(224)	–
Effect of changes in tax rate	–	18
Utilisation of tax losses	(87)	–
Total tax in income statement	2,016	1,894

The calculation of the Group's deferred tax charge is significantly impacted because of the fact that IAS 12 does not permit discounting of deferred tax liabilities. This has been included in note 4 in order to present earnings measures on a comparable basis, 2009: £751,000, (2008: £1,017,000).

8 Earnings per share

	2009 £000	2008 £000
Profit attributable to ordinary shareholders	4,793	4,014
Weighted number of shares in issue for basic earnings per share	44,685,480	38,566,397
Weighted number of shares for diluted earnings per share	44,908,970	38,991,559

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	10.73p	10.41p
Diluted	10.67p	10.29p

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 items which are not considered to impact the trading performance of the Group.

	Note	2009 £000	2008 £000
Profit attributable to ordinary shareholders		4,793	4,014
Amortisation	(i)	340	218
Significant items (note 4)		7,058	4,184
Adjusted profit attributable to ordinary shareholders		12,191	8,416
Adjusted earnings per share (pence per share)			
Basic		27.28p	21.82p
Diluted		27.15p	21.58p

(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.

10. Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
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
At 1 October 2008	144,117	2,188	6,857	153,162
Acquisitions through business combinations	5,829	4	36	5,869
Other acquisitions	5,021	1,244	1,820	8,085
Disposals	–	(9)	–	(9)
At 30 September 2009	154,967	3,427	8,713	167,107
Depreciation and impairment				
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
At 1 October 2008	1,340	801	2,445	4,586
Depreciation charge for the year	520	447	1,233	2,200
Disposals	–	(9)	–	(9)
At 30 September 2009	1,860	1,239	3,678	6,777
Net book value				
At 1 October 2007	83,999	997	3,012	88,008
At 30 September 2008	142,777	1,387	4,412	148,576
At 30 September 2009	153,107	2,188	5,035	160,330

Included in the result for the year is a profit of £250,000 (2008: £nil) on disposal of fixed assets.

Land and buildings

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

	2009 £000	2008 £000
Freehold	146,491	137,265
Long leasehold improvements	4,966	3,681
Short leasehold improvements	1,650	1,831
	153,107	142,777

Security

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

Notes continued

11. Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
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
At 1 October 2008	15,574	739	704	17,017
Acquisitions through business combinations	380	–	–	380
Other acquisitions – externally purchased	–	208	1,602	1,810
At 30 September 2009	15,954	947	2,306	19,207
Amortisation and impairment				
At 1 October 2007	–	64	12	76
Amortisation for the year	–	148	70	218
At 30 September 2008	–	212	82	294
At 1 October 2008	–	212	82	294
Amortisation for the year	–	190	150	340
At 30 September 2009	–	402	232	634
Net book value				
At 1 October 2007	11,674	256	692	12,622
At 30 September 2008	15,574	527	622	16,723
At 30 September 2009	15,954	545	2,074	18,573

During the year goodwill increased by £380,000 as a result of a final settlement to the vendor of Community Support Project Limited, a business acquired in 2007.

The addition to customer relationships arose in May 2009 on the purchase of the contractual rights to operate care contracts.

Amortisation

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

	2009 £000	2008 £000
Other operating expenses	340	218

Impairment testing for cash generating units containing goodwill

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

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

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been calculated with reference to value in use. The key assumptions for the value in use calculations are those regarding discount rates, growth and occupancy rates, achievement of future revenues and expected changes in direct costs during the periods. The assumptions have been reviewed in light of the current economic environment which has resulted in a more conservative estimate about future cash flows. The key features of this calculation are shown below:

	2009	2008
Period on which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	0%	0%
Pre-tax discount rate	8%	8%

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

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

11. Intangible assets continued

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

	2009 £000	2008 £000
Acquisition of the original CareTech Group	3,660	3,660
Delam acquisition 2006	732	732
Lonsdale acquisition 2006	3,052	3,052
Counticare acquisition 2007	1,074	1,074
One Step acquisition 2007	3,961	3,581
Beacon Care acquisition 2008	578	578
Valeo acquisition 2008	2,897	2,897
	15,954	15,574

12. Investments in subsidiaries

The Group has the following investments in trading subsidiaries:

	Country of incorporation	Class of shares held	Ownership	
			2009 %	2008 %
CareTech Community Services Limited	England and Wales	Ordinary	100	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	100 ^a	100
Care Support Services Limited	England and Wales	Ordinary	100 ^a	100
Delam Care Limited	England and Wales	Ordinary	100 ^a	100
Sunnyside Care Homes Limited	England and Wales	Ordinary	100 ^a	100
Lonsdale Midlands Limited	England and Wales	Ordinary	100 ^a	100
Daisybrook Limited	England and Wales	Ordinary	100 ^a	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 ^b	100
Counticare Limited	England and Wales	Ordinary	100 ^a	100
H20 Limited	Gibraltar	Ordinary	100 ^a	100
Hazeldene Limited ¹	Gibraltar	Ordinary	100 ^e	100
One Six One Limited	England and Wales	Ordinary	100 ^a	100
Barleycare Limited	England and Wales	Ordinary	100 ^a	100
Valeo Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	100	100
CareTech Estates (No. 5) Limited	England and Wales	Ordinary	100	–
Beacon Care Holdings Limited	England and Wales	Ordinary	100	100
Beacon Care Investments Limited	England and Wales	Ordinary	100	100
Ashcroft House Limited	England and Wales	Ordinary	100 ^c	100
Ashring House Limited	England and Wales	Ordinary	100 ^c	100
Ashview House Limited	England and Wales	Ordinary	100 ^c	100
Beacon Care Limited	England and Wales	Ordinary	100 ^c	100
Beech Care Limited	England and Wales	Ordinary	100 ^c	100
Bright Care Limited	England and Wales	Ordinary	100 ^c	100
Emeraldpoint Limited	England and Wales	Ordinary	100 ^c	100
Glenroyd House Limited	England and Wales	Ordinary	100 ^c	100
Kirkstall Lodge Limited	England and Wales	Ordinary	100 ^c	100
Leigham Lodge Limited	England and Wales	Ordinary	100 ^c	100
Palm Care Limited	England and Wales	Ordinary	100 ^c	100
Vosse Court Limited	England and Wales	Ordinary	100 ^c	100
Wyatt House Limited	England and Wales	Ordinary	100 ^c	100
Addington House Limited	England and Wales	Ordinary	100 ^d	100
Magnolia Court Limited	England and Wales	Ordinary	100 ^d	100
Victoria Lodge Limited	England and Wales	Ordinary	100 ^d	100
Hereson House Limited	England and Wales	Ordinary	100 ^a	100
Huntsmans Lodge Limited	England and Wales	Ordinary	100 ^a	100
White Cliffs Lodge Limited	England and Wales	Ordinary	100 ^a	100
Rosedale Children's Services Limited	England and Wales	Ordinary	100 ^a	–

1 Has a UK designated trading branch, Hazeldene UK Limited.

^a Subsidiary of CareTech Community Services Limited.

^b Subsidiary of Community Support Project Limited.

^c Subsidiary of Beacon Care Holdings Limited.

^d Subsidiary of Beacon Care Investments Limited.

^e Subsidiary of H20 Limited.

Notes continued

13. Trade and other receivables

	2009 £000	Restated 2008 £000
Trade receivables	7,169	8,108
Other debtors	552	382
Prepayments	2,676	443
	10,397	8,933

14. Cash and cash equivalents

	2009 £000	2008 £000
Cash and cash equivalents per balance sheet	4,321	2,126
Bank overdrafts	–	–
Cash and cash equivalents per cash flow statement	4,321	2,126

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.

	2009 £000	2008 £000
Non-current liabilities		
Secured bank loans	90,124	86,177
Finance lease liabilities	1,461	912
	91,585	87,089
Current liabilities		
Current portion of secured bank loans	5,600	–
Current portion of finance lease liabilities	525	350
	6,125	350

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2009 £000	Book value 2008 £000
Term loan	£	1.4 ¹	2013	63,286	64,495
Revolving credit facility term loan	£	1.5 ¹	2013	32,438	21,682
				95,724	86,177

¹ Margin over LIBOR.

At 30 September 2009 the Group has available bank facilities totalling £108,800,000, sufficient, with cash flow from profits, to fund present commitments. Term facilities are used to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources.

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000
Less than 1 year	731	206	525	485	135	350
Between 1 and 5 years	2,233	772	1,461	1,463	551	912
More than 5 years	–	–	–	–	–	–
	2,964	978	1,986	1,948	686	1,262

16. Trade and other payables

	2009 £000	Restated 2008 £000
Trade payables	3,605	1,521
Accrued expenses	15,136	15,991
	18,741	17,512

17. Deferred tax assets and liabilities*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	2009		2008	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	–	3,669	–	2,699
Intangible assets	–	6,234	–	6,234
IAS 39 derivative financial instruments	(1,729)	–	(354)	–
Employee benefits	(84)	–	(84)	–
Share-based payments	(317)	–	(259)	–
Rolled-over gains on property, plant and equipment	–	4,937	–	4,866
Tax (assets)/liabilities	(2,130)	14,840	(697)	13,799
Net of tax liabilities/(assets)		(2,130)	–	(697)
Net deferred tax liabilities		12,710		13,102

The Group had no unrecognised deferred tax assets at the balance sheet date (2008: £nil).

Movement in deferred tax during the year

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

Movement in deferred tax during the previous 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	4,866	–	–	–	4,866
IAS 39 derivative financial instruments	(61)	(354)	61	–	(354)
Employee benefits	(68)	(16)	–	–	(84)
Share-based payments	(227)	(32)	–	–	(259)
	8,693	738	61	3,610	13,102

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 £88,000 (2008: £45,000).

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 Sharesave Scheme ("the SAYE Scheme").

18. Employee benefits continued

Options granted under the above schemes, together with those remaining at 30 September 2009 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2009	Options exercised to 30 Sept 2009	Options remaining 30 Sept 2009	Option price (pence)
13 October 2005 ¹	Approved Scheme	627,375	(282,085)	(178,736)	166,554	169
7 November 2005 ¹	SAYE Scheme	186,033	(43,519)	(135,639)	6,875	136
2 August 2006 ¹	Approved Scheme	52,427	(43,764)	(3,424)	5,239	292
2 August 2006 ¹	Unapproved Scheme	8,220	(8,220)	–	–	292
17 January 2007	Approved Scheme	162,885	(90,226)	–	72,659	345
17 January 2007	Unapproved Scheme	18,263	(2,139)	–	16,124	345
21 March 2007	Approved Scheme	6,077	–	–	6,077	452
1 February 2008	SAYE Scheme	101,397	(57,912)	–	43,485	440
2 May 2008	Approved Scheme	114,070	(39,660)	–	74,410	410
2 May 2008	Unapproved Scheme	23,843	(6,713)	–	17,130	410
14 April 2009 ²	Unapproved Scheme	92,308	–	–	92,308	0.5
4 August 2009	Approved Scheme	191,121	(2,454)	–	188,667	332.5
4 August 2009	Unapproved Scheme	165,050	–	–	165,050	332.5
12 August 2009	SAYE Scheme	202,069	–	–	202,069	254

¹ Scheme grant of options which have reached maturity during the year.

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

Over the performance period, if:

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

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

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2009		2008	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	582,463	2.48	628,524	2.24
Granted during year	191,121	3.33	114,070	4.10
Forfeited during year	(77,818)	(3.38)	(160,131)	(2.68)
Exercised during year	(182,160)	(1.71)	–	–
Outstanding at end of year	513,606	2.93	582,463	2.48
Outstanding and exercisable at end of year	171,793	1.73	–	–

The options outstanding at 30 September 2009 were exercisable at prices between 169p and 452p and had a weighted average remaining contractual life of 2 years.

During the year ended 30 September 2009, options were granted on 4 August 2009. The aggregate of the estimated fair values of the options granted on this date is £143,341.

For each award of options under the scheme, 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:

	2009	2008
Weighted average share price	£3.30	£4.63
Weighted average exercise price	£2.93	£2.48
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%-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:

	2009		2008	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	50,326	3.67	26,483	3.28
Granted during year	257,358	2.13	23,843	4.10
Forfeited during year	(17,072)	(3.45)	–	–
Exercised during year	–	–	–	–
Outstanding at end of year	290,612	2.32	50,326	3.67
Outstanding and exercisable at end of year	–	–	–	–

The options outstanding at 30 September 2009 were exercisable at prices between 0.5p and 410p and had a weighted average remaining contractual life of 2.5 years.

During the year ended 30 September 2009, options were granted on 14 April 2009 and 4 August 2009. The aggregate of the estimated fair values of the options granted is £263,173.

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

	2009	2008
Weighted average share price	£3.30	£4.63
Weighted average exercise price	£2.32	£3.67
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%-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 estimate of the fair value of the services received in relation to the granting of the nominal cost share options is measured by reference to the Monte Carlo simulation model.

The CareTech Holdings 2005 Save As You Earn Scheme

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

	2009		2008	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	233,579	2.56	186,033	1.36
Granted during year	202,069	2.54	101,397	4.40
Forfeited during year	(47,580)	(4.48)	(53,851)	(1.87)
Exercised during year	(135,639)	(1.36)	–	–
Outstanding at end of year	252,429	2.83	233,579	2.56
Outstanding and exercisable at end of year	6,875	1.36	–	–

The options outstanding at 30 September 2009 were exercisable at prices between 136p and 440p had a weighted average remaining contractual life of 2.6 years.

During the year ended 30 September 2009, options were granted on 12 August 2009.

The aggregate of the estimated fair values of the options granted is £206,110.

Notes continued

18. Employee benefits continued

For each scheme invitation, 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:

	2009	2008
Weighted average share price	£3.30	£4.63
Weighted average exercise price	£2.83	£2.56
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate	3%-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

	2009 £000	2008 £000
Authorised:		
63,612,388 ordinary shares of 0.5p each	318	318
53,402 deferred shares of 0.5p each	–	–
	318	318
Allotted, called up and fully paid:		
44,856,717 ordinary shares of 0.5p each	225	–
44,538,918 ordinary shares of 0.5p each	–	223
53,402 deferred shares of 0.5p each	–	–
	225	223

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

Movements in the number of issued shares were as follows:

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

	2008				At 30 September 2008
	At 1 October 2007	Issued in connection with acquisitions	Issued following share option exercises	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

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 2007 (as previously stated)	183	9,569	1,998	(144)	5,639	17,245
Prior period adjustments	–	–	–	–	(8,435)	(8,435)
Total recognised income and expense	–	–	–	144	4,014	4,158
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 (as restated)	223	38,543	5,037	–	216	44,019
At 1 October 2008	223	38,543	5,037	–	216	44,019
Total recognised income and expense	–	–	–	–	4,793	4,793
Issue of ordinary shares	2	309	–	–	–	311
Equity settled share-based payment transactions	–	–	–	–	209	209
Dividends	–	–	–	–	(1,918)	(1,918)
At 30 September 2009	225	38,852	5,037	–	3,300	47,414

Share premium

During the year £186,000 of transaction costs associated with the issue of new shares has been charged to the share premium account.

Merger reserve

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

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:

	2009 £000	2008 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,204	732
Interim dividends paid in respect of the current year	714	383
Aggregate amount of dividends paid in the financial year	1,918	1,115

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 3.100p per share, £1,390,558 (2008: 2.725p per share, £1,213,685).

22. Acquisitions of subsidiaries

(a) Acquisition of Lyndhurst (2009)

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

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

The provisional fair values of properties reflect their value on a going concern basis, these and the other items above have been determined provisionally as the warranty period has not yet expired.

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

Notes

continued

22. Acquisitions of subsidiaries continued

(b) Acquisition of Beacon Care (2008)

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 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		21,995	2,064	24,059
Debtors	418			418
Cash	799			799
Creditors:				
Trade creditors	(113)			(113)
Corporation tax	(88)			(88)
Accruals and deferred income	(547)			(547)
Other creditors	(360)			(360)
Deferred tax	(62)		(578)	(640)
	47			23,528
Consideration:				
Cash consideration				19,120
Shares				2,211
Cost of acquisition				2,775
Total cost of acquisition				24,106
Goodwill arising on acquisition				578

The book values of assets and liabilities were extracted from the underlying accounting records of the Company 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. 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.

Following acquisition, Beacon contributed EBITDA of £949,000 to the Group's result for the year ended 30 September 2008 and £2,767,000 for the year ended 30 September 2009.

(c) Acquisition of Valeo Limited (2008)

On 17 June 2008, CareTech Holdings PLC acquired the entire share capital of Valeo Limited. The 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 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.

Following acquisition, Valeo contributed EBITDA of £428,000 to the Group's result for the year ended 30 September 2008 and £1,812,000 for the year ended 30 September 2009.

22. Acquisitions of subsidiaries continued**(d) Reconciliation to Group cash flow**

	Lyndhurst £000	Beacon £000	Valeo £000	Total £000
Cash consideration paid	(5,869)	(2,751)	(91)	(8,711)
Net cash acquired	–	–	–	–
Debt acquired	–	–	–	–
	(5,869)	(2,751)	(91)	(8,711)

(e) Proforma results

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

	2009 £000	2008 £000
Revenue	83,636	75,000
Operating profit	18,565	16,000

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.

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

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

The Group provides credit to customers in the normal course of business with a provision for specific doubtful receivables. The balance includes the amounts considered recoverable which also equals their fair value. The Group does not require collateral in respect of financial assets. During the year there was no charge to the income statement for bad or doubtful debts (2008: £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:

	2009 £000	Restated 2008 £000
Not due	4,010	4,990
Not more than 3 months past due	3,145	3,118
More than 3 months but not more than 6 months past due	14	–
More than 6 months past due	–	–
Trade receivables	7,169	8,108

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 31 July 2008 at LIBOR fixed at 5.25% until December 2009 and rising to 5.99% thereafter.

Notes continued

23. Financial instruments continued

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has available bank 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.

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

	2008					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1-5 years £000	5 years and over £000
Trade and other payables	–	(17,512)	(9,636)	(9,636)	–	–
Secured bank loans	7%	(86,177)	(109,402)	(7,233)	(102,169)	–
Finance lease liabilities	11%	(1,262)	(1,948)	(485)	(1,463)	–
Deferred and contingent consideration	–	(8,361)	(8,361)	(6,236)	(2,125)	–
Derivative financial instruments	–	(1,264)	(1,264)	(360)	(904)	–
		(114,576)	(130,611)	(23,950)	(106,661)	–

Capital risk management

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

The Group's capital structure is as follows:

	2009 £000	Restated 2008 £000
Net debt (note 25)	93,389	85,313
Equity (note 20)	47,414	44,019

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 2009, it is estimated that a general increase of 1 percentage point in interest rates would decrease the Group's profit before tax by approximately £257,000 (2008: £587,000). 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 2009 £000	Fair value 2009 £000	Carrying amount 2008 £000	Fair value 2008 £000
<i>Loans and receivables:</i>				
Cash at bank and in hand	4,321	4,321	2,126	2,126
Trade receivables	7,169	7,169	8,108	8,108
<i>Amortised cost:</i>				
Trade payables	(3,605)	(3,605)	(1,521)	(1,521)
Secured bank loans	(95,724)	(95,724)	(86,177)	(86,177)
Finance lease liabilities	(1,986)	(1,986)	(1,262)	(1,262)
<i>Held at fair value:</i>				
Derivative financial instruments	(6,175)	(6,175)	(1,264)	(1,264)

23. Financial instruments continued

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

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

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009		2008	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	4,760	36	4,226	44
Between 1 and 5 years	16,344	79	16,020	30
More than 5 years	147,483	–	150,257	–
	168,587	115	170,503	74

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

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

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

	2009		2008	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	5,056	77	4,701	46
Adjustment for minimum future lease payment uplifts	1,654	–	1,746	–
Total recognised in the income statement	6,710	77	6,447	46

25. Net debt

	1 October 2008 £000	New Borrowings £000	New Leases £000	Repaid	30 September 2009 £000
Bank debt	(86,177)	(10,747)	–	1,200	(95,724)
Finance leases	(1,262)	–	(1,302)	578	(1,986)
	(87,439)	(10,747)	(1,302)	1,778	(97,710)
Cash balances	2,126				4,321
	(85,313)				(93,389)

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 annual rent charged under the lease is £72,348 (2008: £53,650).

Transactions with key management personnel

Key management personnel are defined as directors of the Company as set out on page 14.

Directors of the Company and their immediate relatives control 32% of the voting shares of the Company.

Directors' emoluments are set out on page 19.

27. Post balance sheet events

On 8 October 2009, the Company issued 900,000 ordinary shares of 0.5p each to the vendors of Beacon in satisfaction of consideration due under the terms of the Beacon acquisition agreements (see note 22).

28. Accounting estimates and judgements

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

(a) Judgements

The critical judgements are considered to be the following:

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

(b) Estimates

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

In the process of applying the Group's accounting policies, the directors have made the following estimates and 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 2009 value in use was derived from discounted 10 to 20 year cash flow projections using a year on year growth rate of 0% and discount rates relevant to the cost of capital adjusted for risks associated with the cash-generating unit. The projection period is, in the opinion of the directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions of discount rates, growth rates, expected changes to costs and selling prices used in making these forecasts could significantly alter the directors' assessment of the carrying value of goodwill.

Customer relationships

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

Property, plant and equipment

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

Current asset provisions

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

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

Deferred taxation

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

Contingent consideration

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

Company Statement of Recognised Income and Expense for the year ended 30 September 2009

	2009 £000	2008 £000
Profit for the year	3,924	1,914
Total recognised income and expenses attributable to equity shareholders	3,924	1,914

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Company Balance Sheet

at 30 September 2009

	Note	2009 £000	2008 £000
Non-current assets			
Investments	31	31,602	31,013
Current assets			
Trade and other receivables	32	18,554	16,525
Cash and cash equivalents		187	50
		18,741	16,575
Total assets		50,343	47,588
Current liabilities			
Trade and other payables	33	206	90
Deferred consideration		463	350
Total liabilities		669	440
Net assets		49,674	47,148
Equity attributable to equity shareholders of the parent			
Share capital	34	225	223
Share premium	36	38,852	38,543
Merger reserve	36	5,037	5,037
Retained earnings	36	5,560	3,345
Total equity		49,674	47,148

These financial statements were approved by the Board of directors on 9 December 2009 and were signed on its behalf by:



F. Sheikh
Chairman



D. R. Pugh
Group Finance Director

Company number: 4457287

Company Cash Flow Statement

for the year ended 30 September 2009

	2009 £000	2008 £000
Cash flows from operating activities		
Profit before tax	3,924	1,914
Share-based payments charge	209	113
Operating cash flows before movement in working capital	4,133	2,027
Movement in debtors	112	(102)
Movement in creditors	207	90
Movement in intercompany balance	(2,232)	(17,815)
Net cash from operating activities	2,220	(15,800)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(476)	(12,061)
Cash flows from financing activities		
Dividends paid	(1,918)	(1,115)
Proceeds from the issue of new shares (net of costs)	311	29,012
Net cash used in financing activities	(1,607)	27,897
Net increase in cash and cash equivalents	137	36
Cash and cash equivalents at start of year	50	14
Cash and cash equivalents at 30 September	187	50

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29. Accounting policies

(a) Basis of preparation

The Company is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1.

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 2007 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 2007.

The accounting policies set out below have been applied to the year ended 30 September 2008 in order to present comparative financial information. In preparing its opening IFRS balance sheet, the Company has reviewed amounts previously reported under UK GAAP and there are no material adjustments required to change the Company's financial position under Adopted IFRS at 1 October 2007 or 30 September 2008.

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

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

(b) 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.

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.

(c) 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.

29. Accounting policies continued**(d) Turnover**

Turnover represents management fees receivable.

(e) Share-based payments

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

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

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

(f) 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.

(g) 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.

(h) 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:

	2009 £000	2008 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,204	732
Interim dividends paid in respect of the current year	714	383
Aggregate amount of dividends paid in the financial year	1,918	1,115

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 3.100p per share, £1,390,558 (2008: 2.725p per share, £1,213,685).

31. Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	31,013
Additions	380
Share-based payments charge in respect of subsidiary undertakings	209
At end of year	31,602

Notes continued

32. Trade and other receivables

	2009 £000	2008 £000
Amounts owed by Group undertakings	18,554	16,413
Other debtors	–	112
	18,554	16,525

33. Trade and other payables

	2009 £000	2008 £000
Other creditors	206	90
	206	90

34 Called up share capital

	2009 £000	2008 £000
Authorised:		
63,612,388 ordinary shares of 0.5p each	318	318
53,402 deferred shares of 0.5p each	–	–
	318	318
Allotted, called up and fully paid:		
44,856,717 ordinary shares of 0.5p each	225	–
44,538,918 ordinary shares of 0.5p each	–	223
53,402 deferred shares of 0.5p each	–	–
	225	223

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

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 £nil (2008: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2008: £nil).

The grants and related accounting treatment adopted by the Company is identical to that operated by the Group under IFRS 2 “share-based payments” (see note 18).

36. Reserves

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £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	–	–	–	(1,115)	(1,115)
Share-based payments charge	–	–	–	113	113
Share issue proceeds	40	28,974	3,039	–	32,053
At 30 September 2008	223	38,543	5,037	3,345	47,148
At 1 October 2008	223	38,543	5,037	3,345	47,148
Profit for the year	–	–	–	3,924	3,924
Dividends	–	–	–	(1,918)	(1,918)
Share-based payments charge	–	–	–	209	209
Share issue proceeds	2	309	–	–	311
At 30 September 2009	225	38,852	5,037	5,560	49,674

Share premium

During the year £186,000 of transaction costs associated with the issue of new shares has been charged to the share premium account.

Merger reserve

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

Hedging reserve

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

37. Directors' remuneration

The analysis of directors' emoluments and share options is included within the Remuneration Report on pages 19 to 21. This analysis forms part of these financial statements.

38. Staff numbers and costs

The Company has no employees (2008: none). Directors' emoluments are paid by a subsidiary undertaking.

Directors and Advisers

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4457287

Registered Office:

Leighton House
33-37 Darkes Lane
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Hertfordshire
EN6 1BB

Directors:

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

Company Secretary:

David Pugh

Nominated Adviser and Broker

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