CareTech
Holdings PLC

Extraordinary days every day

Annual Report
and Accounts 2012

The CareTech Family of Services

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

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

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

Our child services cover residential care and a wide range of fostering options. We will carefully and professionally support any child irrespective of their reasons for being in public care. We also offer specialist provision for children and young people who present with sexually offending behaviours or who have emotional and behavioural disorders. Our comprehensive service includes education in OFSTED registered schools of very high quality.

Contents

Consistently delivered growth

Good progress across the Group

Highlights

Revenue
£114.1m
increased by 4.5% (**2011** £109.2m)

Underlying EBITDA[i]
£24.9m
increased by 7.3% (**2011** £23.2m)

Underlying profit before tax[ii]
£16.7m
increased by 5.0% (**2011** £15.9m)

Underlying diluted earnings per share[ii]
26.47p
increased by 4.4% (**2011** 25.35p)

Cash inflows from operating activities before non-underlying items
£22.3m
(**2011** £22.2m)
with net debt of £131.2m (**2011** £127.3m)

Overall capacity increased by 110
2,166 places
increased by 5.4% (**2011** 2,056)

Property portfolio
£225m
independently valued

Final dividend per share
4.29p
increased by 7.3% (**2011** 4.00p)

Statutory financial highlights

EBITDA[iii]
£21.3m
increased by 13.9% (**2011** £18.7m)

Operating profit
£13.8m
increased by 13.1% (**2011** £12.2m)

Diluted earnings per share
12.32p
increased by 5.3% (**2011** 11.70p)

Cash inflows from operating activities after non-underlying items
£19.2m
(**2011** £18.2m)

(i) Underlying EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items.
(ii) Underlying profit before tax and underlying diluted earnings per share are stated before non-underlying items.
(iii) EBITDA is operating profit stated before depreciation, share-based payments charge and amortisation of intangible assets.

Group at a glance

A well balanced range of services

Adult Learning Disabilities

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

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

Revenue

£75.8m

increased by 0.1% (**2011** £75.7m)

EBITDA

£18.1m

increased by 0.5% (**2011** £18.0m)

Market share less than

2%

(**2011** less than 2%)

Capacity

1,469

increased by 4.0% (**2011** 1,413)

Market size and trends

- 1.4m people in the UK have a learning disability
- 185,000 of these cannot live independently
- UK market for adult residential learning disabilities and Supported Living worth £5.9bn
- 5.5% p.a. market growth rate
- Highly fragmented
- High demand for community based care and high value specialist residential services

Mental Health

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

Revenue

£6.0m

decreased by 3.2% (**2011** £6.2m)

EBITDA

£2.0m

increased by 5.3% (**2011** £1.9m)

Market share less than

1%

(**2011** less than 1%)

Capacity

141

increased by 5.2% (**2011** 134)

Market size and trends

- 2.4% of the UK population will be referred to a specialist psychiatric service
- NHS/Local Authority total spend on mental health is £14.4bn
- Independent sector share is £1.2bn representing 7.6% market share
- Highly fragmented
- 70% of prisoners have mental health problems

Young People Residential Services

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

Our internal partnerships with the Foster Care Services provide a helpful tool for these moves. For longer stays in residential care we equip the young people for a successful progression into the adult world.

Revenue

£17.0m

increased by 19.7% (**2011** £14.2m)

EBITDA

£5.3m

increased by 17.8% (**2011** £4.5m)

Market share less than

1%

(**2011** less than 1%)

Capacity

133

increased by 23.1% (**2011** 108)

Market size and trends

- 16,000 children in England looked after outside foster care
- Residential children's market across England worth £1.0bn
- 5.7% p.a. market growth rate
- Highly fragmented

Foster Care and Family Services

Foster Care and Family Services provide for both mainstream and specialist foster care in small supportive groups across the UK. Our family assessment service delivers court based family assessment at a very high level, helping the courts determine whether or not a child should enter the care system.

Our services include foster care for children with very complex emotional or physical needs.

Revenue

£15.3m

increased by 16.8% (**2011** £13.1m)

EBITDA

£4.2m

increased by 31.3% (**2011** £3.2m)

Market share less than

2%

(**2011** less than 2%)

Capacity

423

increased by 5.5% (**2011** 401)

Market size and trends

- Every 22 minutes a child comes into care
- 67,050 "Looked After" Children in England (rising 2.3% from 2011)
- 50,260 children placed in foster care in England (an increase of 3.7% from 2011)
- 35,260 children placed within Local Authority foster care (a reduction of 3% from 2011)
- The Independent Fostering market is worth approx £1.1bn
- CareTech is a top 5 provider with a 2% market share

Chairman's Statement

Good progress across the Group

Farouq Sheikh
Executive Chairman

2012 has been another important year in the development of CareTech and I am pleased to report another sound set of results. The past 2 years have been challenging but have created a number of opportunities for the Group, many of which have been stimulated by the complexity of the economic and social care environment.

Our key achievements in 2012 include the completion of the roll-out of the divisional structure started in 2011, successful reconfigurations, organic growth, and a further refocusing of resources. Together these continue the creation of even stronger value for shareholders.

As outlined in the Group Finance Director's review, CareTech extended its banking arrangements on favourable terms, securing a highly attractive facility of some £149.4m at an all-in debt service charge of less than 4.5% (after hedging) with a term of 4½ years.

The Board has also strengthened its approach to care governance and safeguarding through the creation of a Care Governance and Safeguarding Committee. The Committee is chaired by Mike Adams, Non-Executive Director, a leader in the field of care and disabilities, which has been recognised by the award of an OBE earlier this year.

Results

Revenue of £114.1m (2011: £109.2m) for the year to 30 September 2012 represented growth of 4.5% and generated underlying EBITDA growth of 7.3% to £24.9m (2011: £23.2m).

Underlying operating profit increased by 6.4% to £21.7m (2011: £20.4m) and operating profit increased by 13.1% to £13.8m (2011: £12.2m). Underlying profit before tax for the period was 5.0% higher at £16.7m (2011: £15.9m) and profit before tax was £6.4m (2011: £7.4m).

Underlying diluted earnings per share increased by 4.4% to 26.47p (2011: 25.35p) and underlying profit after tax has risen by 5.6% to £13.3m (2011: £12.6m). The profit after tax increased by £0.4m to £6.2m.

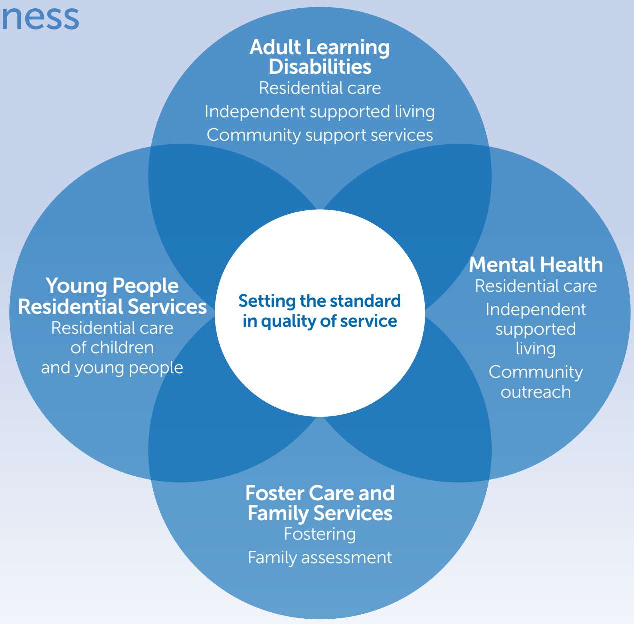
Cash inflows from operating activities before tax and non-underlying items paid were £22.3m (2011: £22.2m). Net debt at the year-end of £131.2m is after taking into account the cash consideration payments in respect of 2 small bolt-on acquisitions of £1.0m and reflects the £4.4m prior year deferred consideration and the £6.3m further investment in the organic development of the Group.

Dividend

The Board has proposed a final dividend of 4.29p (2011: 4.00p) per share bringing the total dividend for the year to 6.50p (2011: 6.00p), an increase of 8.3%. The final dividend will be paid, subject to shareholder approval, on 15 February 2013 to shareholders on the register of members on 18 January 2013.

"2012 has been another important year in the development of CareTech and I am pleased to report another sound set of results."

Our business model



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

Strategy

Social care has attracted significant media interest throughout the past year, offering opportunities and challenges for established providers.

The known financial challenges facing local authorities have required commissioners to think carefully about their criteria for supporting individuals with high needs. Those same pressures are driving a more reflective approach to partnerships and new outsourcing arrangements.

CareTech remains very close to local authority commissioners and is aware of the factors which drive their approach to the independent sector. With this in mind the Group has introduced a number of innovative services and flexible care solutions to win further outsourcing opportunities.

Our general strategic approach is to work with and alongside local authorities and the NHS. Our partnerships are real and aimed at delivering solid results for service users at a price that represents genuine value for commissioners. Through this approach, the Directors believe that CareTech will continue to grow market share.

During the past year we have driven forward through organic initiatives that build on the previous year's acquisitions. This is in line with our long-term approach to acquisitions. In essence, all potential acquisitions have been tested against rigorous added value criteria that include: genuine shareholder value, desired expertise, new geographical opportunities, growth potential and reputational enhancement.

Our strategy continues to focus on innovative approaches that deliver outstanding results. We aim to consistently exceed expectations whether it is from service users, social care commissioners, families or indeed our own staff.

Our people

We have consolidated our divisional management structure and seen a tremendous enthusiasm accruing from the new arrangements. I am grateful to our managers and front-line colleagues for their exceptional commitment during a tough year. They have continued to deliver top quality services despite the pressure from social services to reduce costs and I thank them for managing the right balance of care and commercial sense.

Earlier this year, Christa Echtle advised the Board that, as she was pursuing a new business opportunity within the sector, she had decided to step down as a Director with immediate effect. The Board is looking for a new Non-Executive Director, and has shortlisted candidates. I would like to take this opportunity to thank Christa for the valuable contribution that she has made to the business since she joined the Board in 2008 and wish her well for the future.

Outlook and prospects

We have consistently delivered growth on all fronts in each year of the Group's life. The Board has a positive view of the opportunities that are offered within the new social care environment and we are confident that the executive team has the skills and experience to successfully realise those opportunities. We are also in touch with the strong demographic patterns that favour CareTech's service model and which underpin our growth programme.

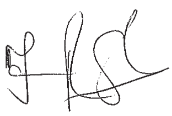
We anticipate further consolidation and refinement of services; and a positive movement away from residential care for people who can thrive in supported living but an increased range of specialist residential services developing in the longer term. New types of provision are required and CareTech is at the forefront of this process with creative solutions to emerging demand.

We also see opportunities, within our expertise for considerable "capital light" growth of new types of community care, focusing on specialised domiciliary approaches, home care, hospital early discharge programmes and the provision of aids and adaptations.

The executive team is persuaded that certain core functions of health and social care commissioning will be subject to outsourcing in the next few years and we are positioning ourselves as leaders in certain aspects of this new market.

CareTech is well positioned relative to many of its peers having lower leverage, significant freehold asset backing, strong free cash flow generation and the financial stability arising from its banking arrangements being fixed for the medium term.

These are exciting times for CareTech and our respective services. With a thoughtful approach to growth, a skilled executive team and the support of our front-line colleagues, I look forward with fresh enthusiasm to 2013.



Farouq Sheikh
Executive Chairman
21 December 2012

Chief Executive's Statement and Operating Review

Delivering further good results for us and our users

Haroon Sheikh
Chief Executive Officer

Consolidation and creative new opportunities

In a further year of significant progress, 2012 has seen the introduction of innovative new services that have been warmly received by local authority commissioners, which we anticipate will benefit the Group over the coming years.

Social workers are increasingly driven by their commitment to meaningful outcomes for their clients, but they remain mindful of the need for good value. We, together with other progressive providers, are working hard to deliver the best solutions for care commissioners and the people we look after on their behalf.

Care Pathway range and services

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

We describe the range of services that are offered by the Group to meet market demand as our "Care Pathway". We have 4 care pathways, which also constitute our business segments for reporting purposes.

(1) Adult Learning Disabilities

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

Revenue for 2012 was £75.8m (2011: £75.7m) and EBITDA for 2012 was £18.1m (2011: £18.0m) with capacity closing at 1,469 (2011: 1,413).

The principal reason for the increase in EBITDA of £0.1m was the reconfiguration of homes and their reopening late in the year.

(2) Mental Health

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

Revenue for 2012 was £6.0m (2011: £6.2m) and EBITDA for 2012 was £2.0m (2011: £1.9m) with capacity ending 2012 at 141 (2011: 134).

These services also had a reconfiguration of homes and a reopening late in the year.

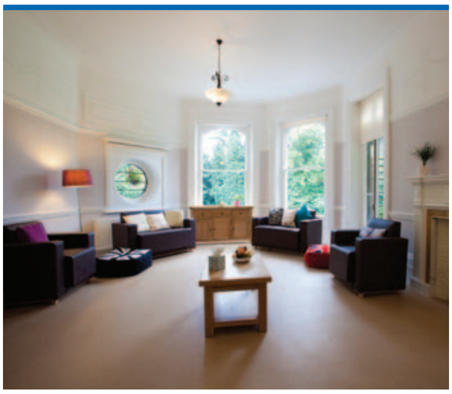
(3) Young People Residential Services

This segment contains children residential care homes, which includes facilities for children with learning difficulties and emotional behavioural disorders ("EBD").

Revenue for 2012 was £17.0m (2011: £14.2m) and EBITDA for 2012 was £5.3m (2011: £4.5m) with capacity ending 2012 at 133 (2011: 108).

The segment benefited from new services and an acquisition.

"In a further year of significant progress, 2012 has seen the introduction of innovative new services that have been warmly received by local authority commissioners."



Inside Morven House after refurbishment.

(4) Foster Care and Family Services

Child fostering covers both mainstream foster care services and specialist provision such as care for children with disabilities, and residential and foster care family assessments.

Revenue in 2012 was £15.3m (2011: £13.1m) and EBITDA for 2012 was £4.2m (2011: £3.2m) with capacity ending 2012 at 423 (2011: 401).

EBITDA improved to £4.2m partly due to the annualised effect of 2011 acquisitions and organic growth.

The Group had unallocated overheads in 2011 of £4.4m and of £4.7m in 2012, which brings the Group's underlying EBITDA in 2011 to £23.2m and 2012 to £24.9m.

Overview of progress

Our focus during the past year has been on growing the business through organic initiatives, building on our previous acquisitions, while introducing innovative new solutions to address the challenges faced by care commissioners.

Capacity has increased by 5% to 2,166. Occupancy levels within our mature services remain at a creditable 92%, or 86% when taking into account our services under development and transition.

Mental Health

Acquisitions in previous years have now been consolidated and where necessary facilities have been updated and improved to meet CareTech's standards. Our acquisition programme has always included an expectation of "springboard" growth once under CareTech ownership. These include in mental health; the development of our Park Lane Step Down service for patients of the Uplands Mental Health hospital and the creation of the Sunnyside Supported Living service. We have also introduced a very progressive care planning tool in mental health, the Recovery Star Model, which has been well received.

Young People Residential Services

In Children services we have acquired Applied Care and Development ("ACAD"), a small but strategically important service in Scotland. ACAD offers support to children with complex needs and has capacity for 18 children in 7 locations, all of which are leased. The service has established relationships with authorities across Scotland and helps us consolidate our presence there. Since its acquisition earlier this year we have increased ACAD's capacity and uplifted the turnover run rate by 25%.

We have opened a brand new children's service in the Midlands, Poppy Lodge, built from a greenfield site adjacent to one of our care homes. This service for children with complex needs has proved popular and is already at full occupancy.

Other children's services successfully opened this year include a new educational facility at our Greenfields site, a new intake and assessment service in Wales, a new home for children with sexually offending behavioural disorders in Wales and the creation of a specialised transition service in the Midlands. We have also invested in an ambitious environmental upgrade programme to reconfigure services that has positioned us as a preferred provider in a number of new areas.

Foster Care and Family Services

Our foster care activities continue to deliver strong organic growth. Fostering is driven by preferred provider status in local authority children services and the availability of foster carers to meet demand. With this in mind we have focused on the recruitment of carers and winning tenders. Our most significant success has been to win the All Wales Tender that has positioned us for strong growth across Wales. Our Wales services includes TLC which is one of the UK's few specialist fostering agencies provided specifically for disabled children, in addition to our more conventional fostering services.

Park Foster Care, one of our family of companies, has gained Accreditation by Kings College and the Centre for Excellence and Outcomes in Children and Young Peoples Services. This follows the introduction of the Park Parenting Approach for training foster carers and is recognised for creating placement stability and carer retention.

CareTech Fostering Holdings Limited was acquired in 2012 and as the company operated in fostering in the North West these operations have been consolidated into Park Foster Care.

Chief Executive's Statement and Operating Review
continued

"CareTech already has a solid reputation for its good quality and varied solutions."

Adult Learning Disabilities

Within learning disability we have seen some interesting new opportunities emerge through service reviews. I am particularly pleased with our new Transition Service at Morven House which is designed specifically to equip young people with complex needs with the skills and enthusiasm to live as independently as they can. The service has generated a real following among local authorities. We have continued to grow our independent supported living options for people with learning disability and have made significant quality and environmental improvements within our residential care services to reconfigure them for future demand.

Earlier this year, we recruited a Bid Manager to co-ordinate and support our approach to tendering. This has been a very successful appointment resulting in 14 tender stage wins which are important for us because they frequently open the door for a pipeline of referrals within a longer-term relationship. This allows local authorities to manage their local social care market whilst providing larger operators such as CareTech even greater revenue visibility and support a more targeted approach to business development.

Principal risks and our strategic response

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

Outside Poppy Lodge Children Service.

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

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

Our people

The CareTech workforce is large and skilled but we have a strong commitment to improving our team yet further. The Company has a Human Resources system with HR partners who are embedded within each of the divisions. These specialists are supported by a corporate team and retained legal experts who advise and support.

We have created a National Centre for Learning and Development that provides leadership across the whole Company. Our principal learning tool is E Learning and over the last 12 months we have delivered nearly 20,000 course completions through this approach. We have also provided 766 days of training to staff groups through more than 76 separate training programmes.

I am particularly pleased that we have 155 staff undertaking Health and Social Care Apprenticeships and have 45 managers currently undergoing advanced training programmes.

Our Board

The Board is committed to the safe delivery of services and we have established a pioneering Safeguarding and Care Governance Committee, chaired by Mike Adams OBE, who is a Non-Executive Director. The committee has already begun its programme for safeguarding and has opened its meetings to the local authority safeguarding experts. This committee has won widespread support and has been welcomed by regulators and social workers.

Strategic objectives and key performance indicators (KPIs)

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

Our understanding of the social care market and our relationships with local authority commissioners is vital to this objective and we are confident in the strength of our position. However, we can always do more and the coming year will see a significant expansion of our quality approach. This is driven by the complex financial position that local authorities are in and their need to have trusted business partners who can help them deliver statutory duties efficiently and with care.

Our key KPIs help us to measure the Group's performance against its objectives and we routinely monitor the following:

- occupancy movement;
- EBITDA;
- profit before tax;
- earnings per share;
- net debt; and
- capacity growth.

Outlook

The factors which influence the market in which we operate are numerous and complex, as indeed is the current economic environment. The changes taking place in our industry continue to drive opportunities for larger operators delivering a quality solution to commissioners.

Many of our commissioning authorities are looking for ways in which they can effectively manage the market and in practice they know that the larger corporate providers make effective partners. In addition they are very conscious of the need for financial stability in partner organisations. In both of these areas CareTech is well regarded and has a proven track record of delivering results.

We will continue our organic growth programme with absolute confidence as to the demand that underpins our aspiration as a Group. In addition we will continue to evaluate strategic bolt-on acquisitions that offer further growth opportunity.

I have great confidence in the enthusiasm and ability of our workforce to deliver the growth that we have identified and I am looking forward to the opportunities ahead as we deliver ever better and more creative solutions to the needs of our service users.

Haroon Sheikh
Chief Executive Officer
21 December 2012

Creating divisions led by industry experts focused on our **four care pathways**...

...means our residents have a **bespoke and professional** planning process.

Financial Review

The Group has continued to make further positive progress

Michael Hill
Group Finance Director

Overview

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

The Group has continued to make further positive progress during the year.

The underlying operating profit remains strong at £21.7m compared to £20.4m last year. Where the key focus in 2010 was making strategic acquisitions to gain market share and extend the care pathway range of services this was slowed down in 2011 and 2012. There was one bolt-on acquisition in the first half and one in the second half of 2012 but the focus has moved to organic developments and cost efficiencies during 2011 and 2012, which will continue in 2013 as well.

Income statement

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

Revenue

Revenue of £114.1m (2011: £109.2m) was 4.5% higher than in 2011. Excluding the revenue generated by the two 2012 acquisitions, revenue grew by 3.2%.

In the established Adult Learning Disabilities segment we continued to experience high levels of occupancy and reported 92% occupancy at 30 September 2012. When blended with facilities under development the overall occupancy level during the second half of the year and at 30 September 2012 was 85% of capacity (September 2011: 87% of capacity). Demand for residential services continues to be robust for high acuity users.

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

Development of our care pathway and an improving range of service options has led to the proportion of Adult Learning Disabilities revenue moving from 69.3% in 2011 to 66.4% in 2012 and EBITDA before Group costs from 65.2% in 2011 to 61.1% in 2012.

Young People Residential Services revenue has risen by 19.7% and Foster Care and Family Services by 16.8% and their proportion of the EBITDA before Group costs have risen from 27.9% in 2011 to 32.1% in 2012 due to their higher margins.

Underlying EBITDA and EBITDA

Including acquisitions, underlying EBITDA has grown by 7.3% from £23.2m in 2011 to £24.9m in 2012. Underlying EBITDA margin has increased from 21.2% to 21.8% due to the segment mix as the 3 smaller segments all grew and with a higher rate of margin. Young People Residential Services EBITDA rose by 17.8% and Foster Care by 31.3%.

The Young People Residential Services and Mental Health segments have higher margins but require considerable capital investment, whilst Foster Care and Family Services operate on lower profit margins partly because they do not require high levels of organic capital. Adult

Table 1 – Consolidated Income Statement

	2012 £m	2011 £m	Growth
Revenue	**114.1**	109.2	4.5%
Gross profit	**45.3**	42.7	
Administrative expenses	**(20.4)**	(19.5)	
Underlying EBITDA	**24.9**	23.2	7.3%
Underlying EBITDA margin	**21.8%**	21.2%	
Depreciation	**(3.1)**	(2.7)	
Share-based payments charge	**(0.1)**	(0.1)	
Underlying operating profit	**21.7**	20.4	6.4%
Net financial expenses	**(5.0)**	(4.5)	
Underlying profit before tax	**16.7**	15.9	5.0%
Taxation	**(3.4)**	(3.3)	
Effective tax rate	**20.0%**	20.7%	
Underlying profit for the year	**13.3**	12.6	5.6%
Weighted average number of diluted shares (millions)	**50.4**	49.7	
Underlying diluted earnings per share	**26.47p**	25.35p	
Full year dividend per share	**6.50p**	6.00p	

Learning Disabilities margin has improved a little despite new services such as supported living and domiciliary care having different returns compared to the organic development and reconfigured services.

Administrative expenses, before depreciation and share-based payments charges, were £20.4m (2011: £19.5m) and increased by £0.9m during the year and represent 17.9% of Group revenue. Property rental costs of £6.7m are included within these administrative expenses and are 6% of revenue. The year also saw continued investment in the operating and management structure of each segment in order to facilitate future growth.

EBITDA grew by 13.9% from £18.7m in 2011 to £21.3m in 2012.

Underlying operating profit and underlying profit before tax

The depreciation charge has risen to £3.1m (2011: £2.7m) and reflects the investment in freehold properties and the fixtures, fittings and equipment in the homes plus motor vehicles. After this charge and the share-based payments, underlying operating profit grew by 6.4% to £21.7m (2011: £20.4m).

Operating profit increased by 13.1% to £13.8m (2011: £12.2m).

Net financial expenses of £5.0m (2011: £4.5m) increased over the previous year due to the higher use of the secured bank loans which had risen due to the strategic acquisitions and capital investment in recent years but that growth has slowed significantly to give a small decrease in net debt in the second half year.

Despite the higher depreciation charge and higher financial expenses the underlying profit before tax of £16.7m (2011: £15.9m) has increased by 5.0%.

Profit before tax was £6.4m (2011: £7.4m).

Taxation and diluted earnings per share

The effective underlying tax rate has come down a little to 20.0% (2011: 20.6%) and reflects management's expectations of future capital investment through organic development relative to available capital allowances and also reflects the impact of the rate reduction in the year.

The weighted number of shares in issue rose by 1.4% whilst the underlying diluted earnings per share rose to 26.47p in 2012 from 25.35p in 2011.

Diluted earnings per share increased by 5.3% to 12.32p (2011: 11.70p).

Dividends

Our policy had been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 4.29p per share (2011: 4.00p), bringing the total dividend for the year to 6.50p (2011: 6.00p), a growth of 8.3%. Dividend cover for 2012, based upon diluted earnings per share before non-underlying items is 4.07 times (2011: 4.23 times).

Non-underlying items

As more fully explained on the face of the Consolidated Statement of Comprehensive Income and in note 4 to the Accounts, the

Table 2 – Revenue

	2012 Revenue £m	2012 Underlying EBITDA £m	2011 Revenue £m	2011 Underlying EBITDA £m
Adult Learning Disabilities	**75.8**	**18.1**	75.7	18.0
Young People Residential Services	**17.0**	**5.3**	14.2	4.5
Foster Care and Family Services	**15.3**	**4.2**	13.1	3.2
Mental Health	**6.0**	**2.0**	6.2	1.9
	114.1	**29.6**	109.2	27.6
Less unallocated Group costs	**–**	**(4.7)**	–	(4.4)
	114.1	**24.9**	109.2	23.2

Financial Review
continued

Directors have separately disclosed a number of non-underlying items on the face of the income statement in order to improve understanding of the trading performance achieved by the Group. Total non-underlying items are £7.1m (2011: £6.8m) and the principal items are amortisation of intangible assets, adjustments to minimum future lease payment uplifts and charges in respect of derivative financial instruments.

Cash flow and net debt

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

	2012 £m	2011 £m
Underlying EBITDA	**24.9**	23.2
Increase in working capital	**(2.6)**	(1.0)
Cash inflows from operating activities	**22.3**	22.2
Tax paid	**(1.8)**	(1.3)
Interest paid	**(5.4)**	(4.8)
Dividends paid	**(3.1)**	(2.8)
Acquisitions and capital expenditure	**(10.7)**	(20.7)
Cash flow before adjustments	**1.3**	(7.4)
Non-underlying cash flows including derivative financial instruments	**(5.2)**	(6.7)
Movement in net debt	**(3.9)**	(14.1)
Opening net debt	**(127.3)**	(113.2)
Closing net debt	**(131.2)**	(127.3)

Net debt at 30 September 2012 of £131.2m (2011: £127.3m) has increased by £3.9m during the financial year, with an investment of £10.7m in acquisitions and capital improvements during the year.

Non-underlying items had a cash outflow effect of £3.0m being payment of acquisition and integration costs and settlements arising from derivative financial instruments contributed a cash outflow of £2.2m (2011: £2.8m).

Underlying cash inflows from operating activities

The £22.3m (2011: £22.2m) cash inflow from operating activities, before non-underlying items, represents a 90% (2011: 96%) underlying EBITDA cash conversion ratio.

Tax, interest and dividend cash flows

Interest paid of £5.4m (2011: £4.8m) is reflective of the net financial expenses per the Consolidated Income Statement, whilst dividends paid are consistent with the relevant section earlier in the review.

Net tax payments of £1.8m (2011: £1.3m) were made in the year.

Acquisitions and capital expenditure

During the year we invested funds of £10.3m (2011: £20.4m) and, in addition, estimated that £0.3m may become payable as deferred consideration in respect of acquisitions completed during the year (see table 3).

Table 3 – Acquisitions and capital expenditure

	Settled £m	Cash Balances £m	Funds Invested £m	Deferred Consideration £m	Total £m
Acquisitions in year	1.0	(0.4)	0.6	0.3	0.9
Prior year deferred consideration	4.4	–	4.4	–	4.4
Capital expenditure	5.3	–	5.3	–	5.3
	10.7	**(0.4)**	**10.3**	**0.3**	**10.6**

The investment of £0.9m relates to the strategic acquisition of Applied Care and Development Limited and CareTech Fostering Holdings Limited; further details of which are explained in the Chief Executive's Statement and Operating Review as well as in the notes to the financial statements.

Deferred consideration of £4.4m was settled in cash during the year.

Capital expenditure of £5.3m includes £2.4m to update our portfolio of assets.

Banking arrangements

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

The refinancing was successfully completed in July 2012 and in the current uncertain lending environment it is pleasing that all 3 of the current consortium of banks have continued to support the Group in the new facility.

Allied Irish Bank, with whom CareTech has had a long relationship, has rejoined the consortium of banks. The new facilities total £149.4m comprising a term loan, a revolving credit facility and an overdraft facility for working capital. The term of the new facilities is 4½ years, expiring in January 2017. The Group took out 5 new hedging instruments to reduce its interest rate risk.

After taking account of hedging costs, the facilities are at a highly competitive all-in debt service charge of less than 4.5%, which further emphasises the Group's strong asset backing and attractiveness to lenders.

As part of the refinancing, the Group's freehold property portfolio was independently valued at £225m. The new bank facility will replace the previous £160m facility and the Board has decided to reduce the size of its total facilities in line with its strategic focus of delivering growth in earnings principally through organic developments. The new facility has certain covenants attached to it which are mostly EBITDA related and were set with sufficient facility headroom.

Outlook

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

Michael Hill
Group Finance Director
21 December 2012

Governance

Board of Directors

A focused and committed team

Farouq Sheikh
Executive Chairman (aged 54)

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 Group as well as leading the management team in winning a number of long-term contracts from local and health authorities.

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

Haroon Sheikh BSc
Chief Executive Officer (aged 56)

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

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

Michael Hill Dip.M, FCIM, FCA, MBA
Group Finance Director (aged 61)

Michael qualified as a chartered accountant with Deloittes in 1975 and then did an MBA before joining Kimberley Clark as a Financial Analyst managing marketing projects. Michael then had senior financial roles in retailing with the launch of Next, the Electricity privatisation and as Finance Director of quoted Mersey Docks. He was involved from 2001 with the Care Charity, Community Integrated Care, as a Trustee and then Director of Finance and from 2006 as Finance Director of National Fostering Agency. Michael joined CareTech in 2010 to establish the Foster Care and Family Services division. He became Group Finance Director on 2 August 2011 and he is also Company Secretary.

Stewart Wallace
Strategic Director (aged 63)

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

Karl Monaghan
Non-Executive Director (aged 50)

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.

Mike Adams
Non-Executive Director (aged 41)

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

Governance

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2012.

Principal activities

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

Business review and future developments

The consolidated statement of comprehensive income detailed on page 28 sets out the Group's financial results for the year.

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's Statement on pages 4 and 5, the Chief Executive's Statement and Operating Review on pages 6 to 9, and the Financial Review on pages 12 to 15, 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 2012 and its prospects for the future.

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

Key risks and uncertainties

There are a number of risks and uncertainties which could impact on the Group's long-term performance. These are set out in the Chief Executive's Statement and Operating Review on pages 6 to 9.

Dividends

Dividends of £1,980,000 and £1,130,000 (total £3,110,000) have been paid during the year. Of this amount £35,000 was received by the Executive Shared Ownership Plan which has been netted against the total payment of £3,110,000 in arriving at the amount shown in the Consolidated Statement of Changes in Equity. The Directors propose a final dividend of 4.29p per share (2011: 4.00p) 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 20 to the financial statements.

Charitable and political donations

No charitable or political donations were made during the year (2011: £nil).

Financial instruments

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

The number of days' purchases ("creditor days") outstanding for payment by the Group at the year end was 24 days (2011: 27 days). The Parent Company, CareTech Holdings PLC, is a holding company and does not trade.

Employees

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

The Group operates a sharesave share option scheme for eligible employees, details of which can be found in note 19. The Board feels that share ownership among employees fosters team spirit and motivation and will contribute to the ultimate success of the Group.

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

Environment

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

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 14 February 2012, the Directors were granted authority to allot shares with an aggregate nominal value of up to the value of one-third of the share capital of the Company.

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

Resolutions for the renewal of both of the above will be proposed at the forthcoming Annual General Meeting, further details of which, together with explanations of the resolutions to be proposed at the meeting, appear in the "Notice of AGM and explanatory circular to Shareholders" which will be sent to Shareholders in good time prior to the meeting.

Substantial shareholdings

As at 6 December 2012, being the date of the preliminary results announcement, the Company had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Company, other than those in respect of Directors which are set out in the Remuneration Report on page 21.

	No. of ordinary shares of 0.5p	Percentage
Henderson Global Investors	11,319,147	22.11%
Richard Ian Griffiths	5,578,284	10.90%
Schroder Investment Management	3,241,984	6.33%
Standard Life Investments	2,279,703	4.45%
JO Hambro Capital Management	1,995,386	3.90%

Directors

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

In accordance with the Articles of Association, Karl Monaghan and Mike Adams retire by rotation and, being eligible, offer themselves for re-election.

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

Farouq Sheikh
Haroon Sheikh
Stewart Wallace
Karl Monaghan
Christa Echtle (resigned 5 April 2012)
Mike Adams
Michael Hill

The terms of the Directors' service contracts and details of the Directors' interests in the shares of the Company, together with details of share options granted and any other awards made to the Directors, are disclosed in the Remuneration Report commencing on page 20.

Directors' insurance

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

Going concern

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

Auditors

As noted in our Interim Report, the Company undertook a review of its auditors and are pleased to announce that at the Board meeting in June Grant Thornton UK LLP were formally appointed as the Group's auditors. Grant Thornton UK LLP have expressed their willingness to continue in office and, in accordance with section 489 of the Companies Act 2006, a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to the auditors

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

By order of the Board

Michael Hill

Michael Hill
Company Secretary
21 December 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Governance

Remuneration Report

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

Remuneration Committee
The Remuneration Committee comprises 2 Non-Executive Directors, Christa Echtle (Chairman) and Karl Monaghan until 5 April 2012 and Karl Monaghan (Chairman) and MIke Adams from 6 April 2012, and meets at least twice each year.

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

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

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

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

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

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

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

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

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

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

The Non-Executive Directors have each been appointed under contracts which are subject to 3 months' notice of termination on either side.

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

Directors' Remuneration (audited)

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

	Salary and fees		Benefits		Annual bonus		Total		Pension	
Year to 30 September	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Current Directors										
Farouq Sheikh	**214**	302	**46**	36	**–**	–	**260**	338	**62**	6
Haroon Sheikh	**163**	204	**32**	33	**–**	–	**195**	237	**64**	9
Stewart Wallace[1]	**107**	95	**30**	30	**–**	–	**137**	125	**5**	3
Karl Monaghan	**43**	43	**–**	–	**–**	–	**43**	43	**–**	–
Mike Adams	**28**	28	**–**	–	**–**	–	**28**	28	**–**	–
Michael Hill	**150**	16	**–**	–	**–**	–	**150**	16	**–**	–
Former Directors										
David Pugh[2]	**–**	348	**–**	22	**–**	–	**–**	370	**–**	6
Christa Echtle[3]	**22**	37	**–**	–	**–**	–	**22**	37	**–**	–
Total	**727**	1,073	**108**	121	**–**	–	**835**	1,194	**131**	24

1 Stewart Wallace is contracted on a 4 day per week basis.
2 Resigned as Director on 2 August 2011. His remuneration for 2011 includes payments of £183,000 for loss of office.
3 Resigned as Director on 5 April 2012.

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 2012 Number of ordinary 0.5p shares	30 September 2011 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]	**170,000**	70,000
Farouq Sheikh	**485,000**	485,000
Haroon Sheikh	**485,000**	485,000
Stewart Wallace	**473,374**	473,374
Autovibe Limited[4]	**332,750**	332,750
Karl Monaghan	**31,250**	31,250
Mike Adams	**2,300**	2,300
Former Directors		
David Pugh	**–**	16,150
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.

Directors' share options

None of the Directors have any share options in the Company. Farouq Sheikh, Haroon Sheikh, Stewart Wallace and Michael Hill own 300,000, 400,000, 150,000 and 175,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan (see note 19).

By order of the Board

Karl Monaghan.

Karl Monaghan
Chairman of the Remuneration Committee
21 December 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Governance

Corporate Governance Report

Do we comply with the UK Corporate Governance Code?

The CareTech Board of Directors (the "Board") remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout its operations.

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

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

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

Who is on our Board?

As Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Chief Executive is Haroon Sheikh; Michael Hill is the Group Finance Director and Stewart Wallace is Strategic Director. The Directors' biographies appear on pages 16 and 17 and detail their experience and suitability for leading and managing the Group.

Karl Monaghan, the Senior Independent Director, Christa Echtle up to the date of her resignation and Mike Adams are the Non-Executive Directors and the Board considers each of them as independent. Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the Group to achieve its strategic aims. Led by Karl Monaghan and Farouq Sheikh there is an active search for new Non-Executive Directors.

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.

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

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

How do we deal with conflicts of interest?

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

Board and Committee meetings

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

At the April 2012 Board meeting the Board established a Care Governance and Safeguarding Committee which is chaired by Mike Adams. The Committee will monitor all care governance and safeguarding matters, including health and safety across the Group, to ensure best practice.

The Directors attended the following meetings in the year to 30 September 2012:

	Board	Audit Committee	Remuneration Committee	Care Governance and Safeguarding Committee
Farouq Sheikh	10	–	–	–
Haroon Sheikh	9	–	–	–
Michael Hill	10	2*	–	2
Stewart Wallace	9	–	–	2
Karl Monaghan	10	2	1	1
Christa Echtle	5	1	1	–
Mike Adams	10	2	–	2

* by invitation

What decision-making responsibilities do the Board have?

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

- financial reporting and controls including statutory matters such as the approval of final and interim financial statements and dividend declarations;
- Board membership and other senior, key personnel, appointments;
- review of corporate governance arrangements;
- Group strategy matters including the approval of annual budgets, acquisitions and disposals;
- review of the processes for monitoring and evaluating risk and the effectiveness of the Group's system of internal control and operational efficiency;
- review and supervision of treasury and financial policies; and
- Shareholder communications.

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

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

The Audit Committee comprised Karl Monaghan (Chairman), and Christa Echtle, up to the date of her resignation as a Director, after which Mike Adams was appointed. The Group Finance Director and representatives of the external auditors attend meetings by invitation as required. The Committee meets at least twice each year and receives reports from the Company's management and external auditors relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditors and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. Details of the amount paid to the external auditors during the year, for audit and other services, are set out in note 5 to the financial statements.

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

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 20 and 21. Also detailed in that report are Directors' remuneration, shareholdings and share option scheme information.

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

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

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

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

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

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

The Care Governance and Safeguarding Committee was established at the April 2012 Board meeting. The Committee is chaired by Mike Adams and the other initial members of the Board Committee are Karl Monaghan, Michael Hill and Stewart Wallace.

The Committee was formed because the Board is sensitive to the public's increased awareness and anxiety about care governance and safeguarding.

The Group has always been regarded as a careful and thoughtful provider of care and the Committee was formed to closely examine and pursue improvements to all matters relating to care governance and the safeguarding of those we support, including health and safety, across the Group.

Secretarial support to the Committee is provided by the Director of Compliance and Regulation who is invited to attend all meetings of the Committee.

Governance

Corporate Governance Report

continued

Have we maintained an effective relationship with our Shareholders?

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

The views of both institutional and private Shareholders are important, and these can be varied and wide-ranging, as is their interest in the Company's strategy, reputation and performance.

The Executive Chairman has overall responsibility for ensuring this communication is effectively discharged and for making the Board fully aware of key Shareholders' views, comments and opinions.

Contact with investors throughout the year is a priority and the Board strives to look after their interests. General presentations to major Shareholders following the publication of the Group's annual and interim results are conducted by the Executive Chairman and the Group Finance Director as are regular meetings through the year with fund managers and investment analysts. In October 2012, the Group held an Investor Workshop in London with the objective of providing a deeper understanding of CareTech's care pathway range of services, its marketplace, opportunities for growth and the Group's future strategy and outlook.

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

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

How do we manage our internal controls and risks?

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

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

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

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

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

By order of the Board

Michael Hill

Michael Hill
Company Secretary
21 December 2012

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Corporate Social Responsibility

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

We care about our service users

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

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

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

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

We care about the environment

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

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

We continue to aim for minimal waste production and waste-free processes. Encouraging the involvement of our workforce in seeking new ways to "be green" is important and we are striving to reduce our carbon footprint in all commercial areas including promoting recycling initiatives, developing a carbon offset scheme for paper usage, using public transport where feasible and striving for energy efficiency.

We care about our staff

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

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

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

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

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

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

We care about quality and safety

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

Maintaining workplace infrastructures is a core objective and sustained investment in Information Technology, furniture, facilities and equipment enable working environments, be they operational or administrative, to be safe and productive.

Regulation is vigorously applied with routine and regular inspections being made by the Care Quality Commission ("CQC") and Ofsted. We continue to resource our own highly experienced internal quality team which undertakes a programme of regular inspection and assessment and gives constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice and procedures are maintained.

We care about our communities

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

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

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

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

Our business has made a significant contribution to the communities in which we operate as in the last financial year we have paid £51.8m (2011: £50.4m) in net wages to our employees, made contributions of £10.5m (2011: £7.6m) to our providers of capital and paid £18.8m (2011: £17.1m) to the Government in social security payments, corporation tax and irrecoverable VAT.

Governance

Statement of Directors' Responsibilities

in respect of the annual report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

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

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

Independent Auditor's Report

to the members of CareTech Holdings PLC

We have audited the financial statements of CareTech Holdings PLC for the year ended 30 September 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

Grant Thornton UK LLP

Malcolm Gomersall
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes

21 December 2012

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2012

	Note	2012 Underlying £000	2012 Non underlying(i) £000	2012 Total £000	2011 Underlying £000	2011 Non underlying(i) £000	2011 Total £000
Revenue	3	114,132	–	114,132	109,150	–	109,150
Cost of sales		(68,809)	–	(68,809)	(66,487)	–	(66,487)
Gross profit		45,323	–	45,323	42,663	–	42,663
Administrative expenses		(23,672)	(7,838)	(31,510)	(22,312)	(8,105)	(30,417)
Operating profit		21,651	(7,838)	13,813	20,351	(8,105)	12,246
EBITDA(ii)		24,853	(3,511)	21,342	23,209	(4,521)	18,688
Depreciation	11	(3,079)	–	(3,079)	(2,680)	–	(2,680)
Amortisation of intangible assets	12	–	(4,327)	(4,327)	–	(3,584)	(3,584)
Share-based payments charge		(123)	–	(123)	(178)	–	(178)
Operating profit		21,651	(7,838)	13,813	20,351	(8,105)	12,246
Financial income	7	20	–	20	32	–	32
Financial expenses	4,7	(5,000)	(2,457)	(7,457)	(4,512)	(350)	(4,862)
Profit before tax		16,671	(10,295)	6,376	15,871	(8,455)	7,416
Taxation	4,8	(3,332)	3,162	(170)	(3,274)	1,670	(1,604)
Profit and total comprehensive income for the year attributable to equity shareholders of the parent		13,339	(7,133)	6,206	12,597	(6,785)	5,812
Earnings per share							
Basic	9			12.32p			11.72p
Diluted	9			12.32p			11.70p

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

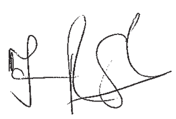
(ii) EBITDA is operating profit stated before depreciation, amortisation of intangible assets, and share-based payments charge.

Consolidated Balance Sheet

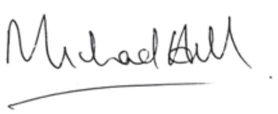
at 30 September 2012

	Note	2012 £000	2011 £000
Non-current assets			
Property, plant and equipment	11	**192,119**	189,504
Other intangible assets	12	**33,335**	36,483
Goodwill	12	**31,120**	30,059
		256,574	256,046
Current assets			
Inventories		**615**	315
Trade and other receivables	14	**10,044**	10,066
Cash and cash equivalents	15	**6,575**	13,414
		17,234	23,795
Total assets		**273,808**	279,841
Current liabilities			
Loans and borrowings	16	**5,634**	7,460
Trade and other payables	17	**10,887**	11,691
Deferred and contingent consideration payable	22	**1,446**	6,596
Deferred income		**2,075**	2,772
Corporate tax		**4,985**	4,139
Derivative financial instruments		**2,861**	2,921
Onerous lease provision	24	**223**	–
		28,111	35,579
Non-current liabilities			
Loans and borrowings	16	**132,144**	133,271
Deferred tax liabilities	18	**21,622**	23,633
Derivative financial instruments		**1,522**	945
Minimum future lease payments		**13,750**	12,553
Onerous lease provision	24	**520**	646
		169,558	171,048
Total liabilities		**197,669**	206,627
Net assets		**76,139**	73,214
Equity			
Share capital	20	**256**	248
Share premium	20	**55,715**	53,515
Shares held by Executive Shared Ownership Plan		**(2,258)**	–
Merger reserve	20	**8,498**	8,498
Retained earnings		**13,928**	10,953
Total equity attributable to equity shareholders of the parent		**76,139**	73,214

These financial statements were approved by the Board of Directors on 21 December 2012 and were signed on its behalf by:



F. Sheikh
Chairman



M. G. Hill
Group Finance Director

Company number: 04457287

Financial Statements

Consolidated Statement of Changes in Equity

as at 30 September 2012

	Share capital £000	Share premium £000	Shares held by Executive Shared Ownership Plan £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2010	248	53,515	–	8,498	7,765	70,026
Profit for the year	–	–	–	–	5,812	5,812
Total comprehensive income	–	–	–	–	5,812	5,812
Equity settled share-based payments charge	–	–	–	–	178	178
Dividends	–	–	–	–	(2,802)	(2,802)
Transactions with owners recorded directly in equity	–	–	–	–	(2,624)	(2,624)
At 30 September 2011	248	53,515	–	8,498	10,953	73,214
At 1 October 2011	248	53,515	–	8,498	10,953	73,214
Profit for the year	–	–	–	–	6,206	6,206
Total comprehensive income	–	–	–	–	6,206	6,206
Issue of ordinary shares	8	2,200	(2,258)	–	–	(50)
Equity settled share-based payments charge	–	–	–	–	(156)	(156)
Dividends	–	–	–	–	(3,075)	(3,075)
Transactions with owners recorded directly in equity	8	2,200	(2,258)	–	(3,231)	(3,281)
At 30 September 2012	**256**	**55,715**	**(2,258)**	**8,498**	**13,928**	**76,139**

Consolidated Cash Flow Statement

for the year ended 30 September 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Profit before tax		**6,376**	7,416
Adjustments for:			
Financial income		**(20)**	(32)
Financial expenses		**7,457**	4,862
Adjustments for minimum future lease payment uplifts	24	**1,761**	1,463
Onerous lease provision charge		**310**	646
Depreciation	11	**3,079**	2,680
Amortisation	12	**4,327**	3,584
Share-based payments charge		**123**	178
Acquisition transaction cost		**155**	1,310
Post acquisition integration and re-organisation cost		**1,033**	1,474
Plant and machinery items written off		**32**	219
Loss/(profit) on disposal of freehold property		**27**	(144)
Fair value adjustment in respect of prior years acquisitions		**220**	230
Bargain purchase credit		**–**	(821)
Operating cash flows before movement in working capital		**24,880**	23,065
Decrease in trade and other receivables		**38**	879
Decrease in trade and other payables		**(2,342)**	(1,559)
Increase in inventories		**(300)**	(163)
Operating cash flows before adjustment items		**22,276**	22,222
Non underlying items paid		**(3,079)**	(3,990)
Cash inflows from operating activities		**19,197**	18,232
Interest received		**20**	32
Tax paid		**(1,771)**	(1,297)
Net cash from operating activities		**17,446**	16,967
Cash flows from investing activities			
Proceeds from sale of property plant and equipment		**948**	1,007
Acquisition of subsidiaries, net of cash acquired	22	**(5,032)**	(13,625)
Acquisition of property, plant and equipment		**(5,698)**	(6,365)
Acquisition of intangible assets		**(262)**	(50)
Acquisition of software	12	**(435)**	(342)
Net cash used in investing activities		**(10,479)**	(19,375)
Cash flows from financing activities			
Costs arising from the issue of share capital	20	**(50)**	–
Proceeds from long term borrowings (net of costs)		**4,374**	22,249
Interest paid		**(5,364)**	(4,794)
Cash outflow arising from derivative financial instruments		**(2,206)**	(2,797)
Repayment of borrowings		**(6,638)**	(5,000)
Payment of finance lease liabilities		**(847)**	(1,042)
Dividends paid	21	**(3,075)**	(2,802)
Net cash from financing activities		**(13,806)**	5,814
Net (decrease)/increase in cash and cash equivalents		**(6,839)**	3,406
Cash and cash equivalents at start of year		**13,414**	10,008
Cash and cash equivalents at 30 September	15	**6,575**	13,414

Net debt in the balance sheet comprises:

	Note	2012 £000	2011 £000
Cash at bank and in hand	15	**6,575**	13,414
Bank loans	16	**(136,169)**	(138,350)
Finance lease and hire purchase contracts	16	**(1,609)**	(2,381)
Net debt at 30 September		**(131,203)**	(127,317)

Financial Statements

Notes

1 Background and basis of preparation

CareTech Holdings PLC (the "Company") is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2012 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in GBP (£), which is the Company's functional currency, rounded to the nearest thousand. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements were approved for release by the Board of Directors on 21 December 2012.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Operating Review on pages 4 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 15. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through a mixture of bank facilities which are sufficient, with cash flow from profits, to fund present commitments.

A new facility was agreed with the Group's bankers in July 2012 and expires in January 2017. The Directors acknowledge the net current liabilities at each balance sheet date, nevertheless the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group expects to be able to operate within the current levels of its facilities.

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

2 Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

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

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

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

Endorsed		Effective for periods beginning on or after
IAS 1	Presentation of Items of Other Comprehensive Income (Amendments to IAS1)	1 July 2012
IAS 19	Employee Benefits	1 January 2013

The Directors anticipate that the above Standards will be adopted in the Group's financial statements for the period commencing 1 October 2012 and that their adoption will have no material impact on the financial statements of the Group.

For the year ended 30 September 2012 no accounting standards, interpretations and amendments were adopted.

(b) Measurement convention

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

(c) Basis of consolidation

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

(d) Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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

2 Accounting policies (continued)

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

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

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

(e) Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the consideration over the fair value of the assets, liabilities and contingent liabilities acquired on acquisition of subsidiaries. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Negative goodwill (bargain purchase credit) arising on an acquisition is recognised in profit or loss.

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

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

- Customer relationships — 3–20 years; and
- Software and licences — 5 years.

(f) Inventories

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

(g) Cash and cash equivalents

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

(h) Financial instruments

Recognition, initial measurement and derecognition

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

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

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

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

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

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables

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

Financial Statements

Notes
continued

2 Accounting policies (continued)

Financial assets at FVTPL

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

Classification and subsequent measurement of financial liabilities

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

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

Where a non-substantial modification to the terms of a financial liability arises this is accounted for as an adjustment to the existing liability. The carrying value of the existing liabilities is adjusted for fees paid or costs incurred. The effective interest rate method is amended such that the adjusted carrying amount and the revised estimate of future cash flows are discounted over the revised, estimated life of the liability. No gain or loss is recorded on modification.

Derivative financial instruments and hedging

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group does not apply hedge accounting to these financial instruments.

A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

(i) Impairment (excluding deferred tax assets)

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

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

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

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

(j) Interest-bearing borrowings

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

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

Interest associated with qualifying properties under development is capitalised in accordance with IAS 23 borrowing costs.

2 Accounting policies (continued)

(k) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as incurred.

Short-term benefits

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

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted excluding the impact of non market vesting conditions. The amount recognised as an expense is adjusted to take into account an estimate of the number of shares that are expected to vest as well as to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

Employee Benefit Trust

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

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

(l) Provisions

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

(m) Revenue

Revenue comprises the fair value of fee income receivable for the year in respect of the provision of care and fostering services and is recognised in respect of the day's care that has been provided in the relevant period. Fostering revenue is recognised on the basis of the daily placements made with a full day's revenue recognised for every night a placement is with a foster carer. Revenue invoiced in advance is included in deferred income until the service is provided.

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

(n) Expenses

Finance lease payments

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

Non underlying items

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

Financing costs

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

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

Financing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

Financing costs also include losses arising on the change in fair value of hedging instruments that are recognised in the income statement.

Pre-contract costs

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

(o) Operating leases

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

The Group accounts for sale and leaseback transactions according to the nature of the lease arrangement which arises. Transactions which give rise to an operating lease, in which substantially all the risks and rewards of ownership are transferred, result in a profit or loss on disposal being recognised immediately, if the transaction is at fair value, 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.

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2 Accounting policies (continued)

(p) Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date.

(q) Underlying EBITDA and underlying earnings per share

Underlying EBITDA as defined on page 28 is the key profit measure used by the Board to assess the trading performance of the Group as a whole.

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

(r) Business combinations

Accounting for business combinations

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

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

Acquisitions on or after 1 October 2009

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

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

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

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

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

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

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

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

3 Segmental information

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

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

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

Our four segments are, Adult Learning Disabilities ("ALD"), Young People Residential Services ("YPR"), Foster Care and Family Services ("FFS") and Mental Health ("MH"). There has been no aggregation of the operating segments in arriving at these reportable segments.

The segment results for the year ended 30 September 2012, for the year ended 30 September 2011 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial information are as follows:

Year ended 30 September 2012

Continuing Operations	ALD	YPR	FFS	MH	Total
Client Capacity	**1,469**	**133**	**423**	**141**	**2,166**
Revenue (£000)	**75,811**	**16,975**	**15,281**	**6,065**	**114,132**
EBITDA (£000)	**18,053**	**5,345**	**4,151**	**1,971**	**29,520**

Year ended 30 September 2011

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

Reconciliation of EBITDA to profit before tax;

	2012 £000	2011 £000
Underlying EBITDA before unallocated costs	**29,520**	27,669
Unallocated costs	**(4,667)**	(4,460)
Underlying EBITDA	**24,853**	23,209
Depreciation	**(3,079)**	(2,680)
Amortisation	**(4,327)**	(3,584)
Share based payments charge	**(123)**	(178)
Non underlying items	**(3,511)**	(4,521)
Operating profit	**13,813**	12,246
Financial income	**20**	32
Financial expenses	**(7,457)**	(4,862)
Profit before tax	**6,376**	7,416

All operations of the Group are carried out in the UK, the Company's country of domicile. All revenues therefore arise within the UK and all non-current assets are likewise located in the UK. No single external customer amounts to 10% or more of the Group's revenues.

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

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

	Note	2012 £000	2011 £000
Acquisition expenses		**155**	1,310
Post acquisition integration and reorganisation costs	(i)	**1,065**	1,693
Fair value adjustments in respect of prior year acquisitions	(ii)	**220**	230
Acquisition and development costs		**1,440**	3,233
Bargain purchase credit (note 22)		**–**	(821)
Adjustments for minimum future lease payment uplift to IAS 17 (note 24)	(iii)	**1,761**	1,463
Onerous lease provision	(iv)	**310**	646
Included in EBITDA		**3,511**	4,521
Amortisation of intangible assets (note 12)		**4,327**	3,584
Included in administrative expenses		**7,838**	8,105
Loan finance costs written off on refinancing (note 7b)	(v)	**338**	–
Revaluation movements relating to derivative financial instruments	(vi)	**517**	(2,447)
Charges relating to derivative financial instruments (note 7b)	(vi)	**1,602**	2,797
Included in financial expenses		**2,457**	350
Tax on non underlying items (note 8):			
Current	(vii)	**(1,038)**	(1,387)
Deferred tax	(viii)	**(2,124)**	(283)
Included in taxation		**(3,162)**	(1,670)
Total non underlying items		**7,133**	6,785

(i) The Group incurred a number of costs relating to the integration of recent acquisitions and reorganisation of the internal operating and management structure. These comprise £652,000 (2011: £760,000) of costs associated with restructuring the Adult Learning Difficulties and Foster Care and Family Services Divisions, £381,000 (2011: £714,000) of costs associated with the integration of acquisitions and the associated restructuring of the finance and support functions and a charge of £32,000 (2011: £219,000) in respect of items of plant and equipment written off in the year. Included in the cash flow statement are acquisition expenses of £1,246,000 (2011: £2,702,000) and post acquisition integration and reorganisation costs of £1,833,000 (2011: £1,288,000), which were paid in the year and which have been included in operating cash flows.

(ii) In accordance with IFRS 3 (as revised) adjustments to the fair value of acquisitions completed in previous financial years are recognised in the income statement. These adjustments relate to final completion account agreements with vendors.

(iii) Adjustments relate to non-cash additional charges under IAS 17 which incorporates recognising the effect of minimum future lease payment uplifts on a straight-line basis.

(iv) The present value of the future cash flows receivable from the operation of certain leased assets has been assessed as being lower than the present value of the rental payments to which the Group is committed. Therefore the Group has provided for £310,000 (2011: £646,000) being the present value of any onerous element of the remaining lease life.

(v) In July 2012, the Group completed a refinancing exercise. As such the unamortised element of loan fee costs on the replaced debt was fully written off.

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

(vii) Represents the current tax on items (i), (ii), (iii), (iv), (v) and (vi) above.

(viii) A deferred tax credit of £125,000 (2011: £803,000 charge) arises in respect of a charge relating to derivative financial instruments in (vi) above. In addition, a credit of £1,432,000 (2011: £775,000) arises in respect of changes in future corporation tax rates, together with a credit from the effects of full provision for deferred tax under IAS 12 amounting to £567,000 (2011: £311,000).

5 Auditor's remuneration

	2012 £000	2011 £000
Audit of these financial statements	**40**	55
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**160**	230
All other services	**–**	12

6 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	
	2012	2011
Residential care staff	**3,112**	3,154
Maintenance	**16**	17
Management and administration	**221**	213
	3,349	3,384

6 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2012 £000	2011 £000
Wages and salaries	53,163	52,749
Share-based payments charge	123	178
Social security costs	4,094	3,891
Other pension costs	182	113
	57,562	56,931

7 Finance income and expenses

	2012 £000	2011 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss:		
On bank deposits	20	32
	20	32
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	4,818	4,280
Finance charges in respect of finance leases	182	232
Financial expenses before adjustments	5,000	4,512
Derivative financial instruments (note 4)	2,119	350
Loan finance costs written off on refinancing (note 4)	338	–
	7,457	4,862

In accordance with the revision to IAS 23, borrowing costs of £500,000 (2011: £580,000) have been capitalised in the year. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

8 Taxation

(a) Recognised in the income statement

	2012 £000	2011 £000
Current tax expense		
Current year	3,789	3,502
Current tax on non underlying items (note 4)	(1,038)	(1,387)
Corporation tax overprovided in previous periods	(225)	–
Total current tax	2,526	2,115
Deferred tax expense		
Current year	(799)	(539)
Effect of changes in future tax rate	(1,432)	(775)
Deferred tax on non underlying items (note 4)	(125)	803
Total deferred tax	(2,356)	(511)
Total tax in income statement	170	1,604

(b) Reconciliation of effective tax rate

	2012 £000	2011 £000
Profit before tax for the year	6,376	7,416
Tax using the UK corporation tax rate of 25% (2011: 27%)	1,594	2,002
Non-deductible expenses	1,335	1,364
Effect of changes in future tax rate	(1,432)	(775)
Other deferred tax adjustments	(1,102)	(987)
Corporation tax overprovided in previous periods	(225)	–
Total tax in income statement	170	1,604

In the 2012 Budget it was announced that the main rate of corporation tax would reduce to 24% with effect from 1 April 2012 falling by a further percentage point in each of the subsequent 2 years. The 24% rate was substantively enacted on 26 March 2012 and was reduced to 23% in July 2012 and this has resulted in a deferred tax credit in 2012 of £1,432,000.

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9 Earnings per share

	2012 £000	2011 £000
Profit attributable to ordinary shareholders	**6,206**	5,812
Weighted number of shares in issue for basic earnings per share	**50,377,890**	49,586,656
Effects of share options in issue	**12,944**	106,227
Weighted number of shares for diluted earnings per share	**50,390,834**	49,692,883

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	**12.32p**	11.72p
Diluted	**12.32p**	11.70p

10 Underlying earnings per share

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

	2012 £000	2011 £000
Profit attributable to ordinary shareholders	**6,206**	5,812
Non underlying items (note 4)	**7,133**	6,785
Underlying profit attributable to ordinary shareholders	**13,339**	12,597
Underlying earnings per share (pence per share)		
Basic	**26.48p**	25.40p
Diluted	**26.47p**	25.35p

11 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2010	177,119	4,392	11,885	193,396
Acquisitions through business combinations	1,751	56	163	1,970
Transfer (note 12)	(1,356)	–	–	(1,356)
Other additions	4,602	1,057	3,092	8,751
Disposals	(1,103)	(865)	(12)	(1,980)
At 30 September 2011	181,013	4,640	15,128	200,781
At 1 October 2011	181,013	4,640	15,128	200,781
Acquisitions through business combinations	–	82	121	203
Other additions	3,926	75	2,271	6,272
Disposals	(572)	(236)	(192)	(1,000)
At 30 September 2012	**184,367**	**4,561**	**17,328**	**206,256**
Depreciation and impairment				
At 1 October 2010	2,459	1,780	5,018	9,257
Depreciation charge for the year	439	624	1,617	2,680
Disposals	(21)	(636)	(3)	(660)
At 30 September 2011	2,877	1,768	6,632	11,277
At 1 October 2011	2,877	1,768	6,632	11,277
Depreciation charge for the year	592	653	1,834	3,079
Disposals	(2)	(164)	(53)	(219)
At 30 September 2012	**3,467**	**2,257**	**8,413**	**14,137**
Net book value				
At 1 October 2010	174,660	2,612	6,867	184,139
At 30 September 2011	178,136	2,872	8,496	189,504
At 30 September 2012	**180,900**	**2,304**	**8,915**	**192,119**

Included in the result for the year is a loss of £27,000 (2011: £144,000 profit) on the disposal of freehold property and a charge of £32,000 (2011: £219,000) relating to items of plant and equipment written off in the year.

11 Property, plant and equipment (continued)

Land and buildings

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

	2012 £000	2011 £000
Freehold	**174,360**	171,443
Long leasehold improvements	**4,538**	4,644
Short leasehold improvements	**2,002**	2,049
	180,900	178,136

As part of the refinancing, the Group's freehold property portfolio was independently valued at £225 million.

Security

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

12 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
At 1 October 2010	26,159	1,660	26,796	54,615
Acquisitions through business combinations	3,900	–	11,341	15,241
Transfers (note 11)	–	–	1,356	1,356
Other additions	–	342	93	435
At 30 September 2011	30,059	2,002	39,586	71,647
At 1 October 2011	30,059	2,002	39,586	71,647
Acquisitions through business combinations	1,061	–	662	1,723
Other additions	–	435	82	517
At 30 September 2012	**31,120**	**2,437**	**40,330**	**73,887**
Amortisation and impairment				
At 1 October 2010	–	592	929	1,521
Amortisation for the year	–	498	3,086	3,584
At 30 September 2011	–	1,090	4,015	5,105
At 1 October 2011	–	1,090	4,015	5,105
Amortisation for the year	–	689	3,638	4,327
At 30 September 2012	**–**	**1,779**	**7,653**	**9,432**
Net book value				
At 1 October 2010	26,159	1,068	25,867	53,094
At 30 September 2011	30,059	912	35,571	66,542
At 30 September 2012	**31,120**	**658**	**32,677**	**64,455**

Amortisation

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

	2012 £000	2011 £000
Administrative expenses	**4,327**	3,584

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12 Intangible assets (continued)

Impairment testing for cash-generating units containing goodwill

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

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

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been calculated with reference to value in use. The key assumptions for the period over which management approved forecasts are based and, beyond this, for the value in use calculations overall, are those regarding discount rates, growth and occupancy rates, achievement of future revenues, expected changes in direct costs during the periods and residual values of freehold properties (which include an assumption for the growth of the House Prices Index of 2% per annum and that residual values will be 75% of the indexed market value). In arriving at the values assigned to each key assumption management make reference to past experience and external sources of information regarding the future – for example changes in tax rates. The assumptions have been reviewed in light of the current economic and public spending environment. The key features of these calculations are shown below:

	2012	2011
Period over which management approved forecasts are based	**1 year**	1 year
Growth rate applied beyond approved forecast period	**0%**	0%
Pre-tax discount rate		
Adult Learning Disabilities	**8%**	8%
Foster Care and Family Services	**12%**	12%
Young People Residential Services	**8%**	8%
Mental Health	**10%**	10%

In preparing value in use calculations for cash-generating units, cash flow periods of between 10 and 20 years have been used in order to match the period of goodwill with the average period of time service users are expected to remain in their relevant home. The discount rates used in each value in use calculation have been based upon divisional specific risk taking account of factors such as the nature of service user need, cost profiles and the barriers to entry into each market segment as well as other macro-economic factors.

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

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

	2012 £000	2011 £000
Adult Learning Disabilities	**17,857**	17,857
Foster Care and Family Services	**7,878**	6,983
Young People Residential Services	**4,245**	4,079
Mental Health	**1,140**	1,140
	31,120	30,059

During 2011 the Group elected to sell the freehold title to a number of properties used in the provision of care. As part of the arrangements for service users' continuing care, the Group retained the contracts for the provision of care services. As such the Group has accounted for the disposal of freehold land and buildings and a transfer of the fair value of the customer relationship associated with these contracts to intangible assets. There is no effect on comparative profit, cash flows, basic and diluted earnings per share or previous balance sheets.

13 Group undertakings

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

	Country of incorporation	Class of shares held	Ownership 2012 %	2011 %
CareTech Community Services Limited	England and Wales	Ordinary	**100**	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	**100[a]**	100[a]
Care Support Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Delam Care Limited	England and Wales	Ordinary	**100[a]**	100[a]
Sunnyside Care Homes Limited	England and Wales	Ordinary	**100[a]**	100[a]
Lonsdale Midlands Limited	England and Wales	Ordinary	**100[a]**	100[a]
Daisybrook Limited	England and Wales	Ordinary	**100[a]**	100[a]
CareTech Estates Limited	England and Wales	Ordinary	**100**	100
Community Support Project Limited	England and Wales	Ordinary	**100**	100
One Step (Support) Limited	England and Wales	Ordinary	**100[b]**	100[b]
Counticare Limited	England and Wales	Ordinary	**100[a]**	100[a]
H20 Limited	Gibraltar	Ordinary	**100[a]**	100[a]
Hazeldene Limited[1]	Gibraltar	Ordinary	**100[e]**	100[e]
One Six One Limited	England and Wales	Ordinary	**100[a]**	100[a]
Barleycare Limited	England and Wales	Ordinary	**100[a]**	100[a]
Valeo Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 5) Limited	England and Wales	Ordinary	**100**	100
Beacon Care Holdings Limited	England and Wales	Ordinary	**100**	100
Beacon Care Investments Limited	England and Wales	Ordinary	**100**	100
Ashcroft House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Ashring House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Ashview House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Beacon Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Beech Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Bright Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Emeraldpoint Limited	England and Wales	Ordinary	**100[c]**	100[c]
Glenroyd House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Kirkstall Lodge Limited	England and Wales	Ordinary	**100[c]**	100[c]
Leigham Lodge Limited	England and Wales	Ordinary	**100[c]**	100[c]
Palm Care Limited	England and Wales	Ordinary	**100[c]**	100[c]
Vosse Court Limited	England and Wales	Ordinary	**100[c]**	100[c]
Wyatt House Limited	England and Wales	Ordinary	**100[c]**	100[c]
Addington House Limited	England and Wales	Ordinary	**100[d]**	100[d]
Magnolia Court Limited	England and Wales	Ordinary	**100[d]**	100[d]
Victoria Lodge Limited	England and Wales	Ordinary	**100[d]**	100[d]
Hereson House Limited	England and Wales	Ordinary	**100[a]**	100[a]
Huntsmans Lodge Limited	England and Wales	Ordinary	**100[a]**	100[a]
White Cliffs Lodge Limited	England and Wales	Ordinary	**100[a]**	100[a]
Rosedale Children's Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Roborough House Limited	England and Wales	Ordinary	**100[a]**	100[a]
Franklin Homes Limited	England and Wales	Ordinary	**100[a]**	100[a]
Family Assessment Services (Birmingham) Limited	England and Wales	Ordinary	**100**	100
Greenfields Care Group Limited	England and Wales	Ordinary	**100[a]**	100[a]
Greenfields Adolescent Development Limited	England and Wales	Ordinary	**100[f]**	100[f]
St Michael's Support & Care Limited	England and Wales	Ordinary	**100[a]**	100[a]
St Michael's Support & Care Properties Limited	England and Wales	Ordinary	**100[a]**	100[a]
Outlook Fostering Services Limited	England and Wales	Ordinary	**100[a]**	100[a]
Prestwood Residential Homes Ltd	England and Wales	Ordinary	**100[a]**	100[a]
Park Foster Care Ltd	England and Wales	Ordinary	**100[a]**	100[a]
Branas Isaf (Holdings) Limited	England and Wales	Ordinary	**100[a]**	100[a]
Branas Isaf Personal Development Centre Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Bythnod & Hendre Llywd) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Llyn Coed) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Ashfield House) Limited	England and Wales	Ordinary	**100[h]**	100[h]
Branas Isaf (Education Centre) Limited	England and Wales	Ordinary	**100[g]**	100[g]
Mason Property Development Company Limited	England and Wales	Ordinary	**100[g]**	100[g]

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13 Group undertakings (continued)

	Country of incorporation	Class of shares held	Ownership 2012 %	Ownership 2011 %
Coveberry Limited	England and Wales	Ordinary	100[a]	100[a]
Uplands (Fareham) Limited	England and Wales	Ordinary	100[i]	100[i]
CareTech Foster Care Limited	England and Wales	Ordinary	100[j]	100[j]
Fostering Support Group Limited	England and Wales	Ordinary	100[k]	100[k]
Phoenix Therapy and Care Limited	Scotland	Ordinary	100[a]	100[a]
Cameron Care Limited	Scotland	Ordinary	100[a]	100[a]
Selwyn Care Limited	England and Wales	Ordinary	100[a]	100[a]
Professional Integrated Care Services Limited	England and Wales	Ordinary	100[a]	100[a]
Complete Care and Enablement Limited	England and Wales	Ordinary	100[l]	100[l]
Applied Care & Development Limited	Scotland	Ordinary	100[a]	–
Caretech Fostering Holdings Limited	England and Wales	Ordinary	100[a]	–
Caretech Fostering Services Limited	England and Wales	Ordinary	100[m]	–

1 Has a UK designated trading branch, Hazeldene UK Limited
a a subsidiary of CareTech Community Service Limited
b a subsidiary of Community Support Project Limited
c a subsidiary of Beacon Care Holdings Limited
d a subsidiary of Beacon Care Investments Limited
e a subsidiary of H20 Limited
f a subsidiary of Greenfields Care Group Limited
g a subsidiary of Branas Isaf (Holdings) Limited
h a subsidiary of Branas Isaf Personal Development Centre Limited
i a subsidiary of Coveberry Limited
j a subsidiary of Outlook Fostering Services Limited
k a subsidiary of CareTech Foster Care Limited
l a subsidiary of Professional Integrated Care Services Limited
m a subsidiary of Caretech Fostering Holdings Limited

14 Trade and other receivables

	2012 £000	2011 £000
Trade receivables (note 23)	7,187	5,696
Other debtors and prepayments	2,857	4,370
	10,044	10,066

15 Cash and cash equivalents

	2012 £000	2011 £000
Cash and cash equivalents per balance sheet	6,575	13,414
Cash and cash equivalents per cash flow statement	6,575	13,414

16 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.

	2012 £000	2011 £000
Non-current liabilities		
Secured bank loans	131,615	131,850
Finance lease liabilities	529	1,421
	132,144	133,271
Current liabilities		
Current portion of secured bank loans	4,554	6,500
Current portion of finance lease liabilities	1,080	960
	5,634	7,460

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2012 £000	Book value 2011 £000
Term loan	£	3.25 (2011:1.75)[1]	2017	107,760	79,776
Revolving credit facility term loan	£	3.25 (2011:2.25)[1]	2017	28,409	58,574
				136,169	138,350

1 The margin on the new facilities has initially been set at 3.5% over LIBOR for 6 months but reduces after that based on the ratio of the Group's net debt to EBITDA. The overall margin is expected to be 3.25% over LIBOR.

16 Other interest-bearing loans and borrowings (continued)

At 30 September 2012 the Group has available bank facilities totalling £149.4m, sufficient, with cash flow from profits, to fund present operating cash flows. 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 2012 £000	Interest 2012 £000	Principal 2012 £000	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000
Less than 1 year	**1,162**	**82**	**1,080**	1,109	149	960
Between 1 and 5 years	**569**	**40**	**529**	1,588	167	1,421
	1,731	**122**	**1,609**	2,697	316	2,381

17 Trade and other payables

	2012 £000	2011 £000
Trade payables	**2,262**	2,386
Accrued expenses	**8,625**	9,305
	10,887	11,691

18 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012		2011	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	**–**	**5,348**	–	5,014
Intangible assets	**–**	**13,509**	–	15,455
Derivative financial instruments	**(1,052)**	**–**	(1,005)	–
Share-based payments	**(414)**	**–**	(415)	–
Rolled-over gains on property, plant & equipment	**–**	**4,231**	–	4,584
Tax (assets)/liabilities	**(1,466)**	**23,088**	(1,420)	25,053
Net of tax assets		**(1,466)**		(1,420)
Net deferred tax liabilities		**21,622**		23,633

Movement in deferred tax during the year

	1 October 2011 £000	Recognised in income £000	Acquired in business combination £000	30 September 2012 £000
Property, plant and equipment	5,014	334	–	**5,348**
Intangible assets	15,455	(2,291)	345	**13,509**
Rolled-over gains	4,584	(353)	–	**4,231**
Derivative financial instruments	(1,005)	(47)	–	**(1,052)**
Share-based payments	(415)	1	–	**(414)**
	23,633	(2,356)	345	**21,622**

Movement in deferred tax during the previous year

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

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19 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 £182,000 (2011: £113,000) of which £nil (2011: £nil) was outstanding at the year end.

Share-based payments

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

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

Options granted under the above schemes, together with those remaining at 30 September 2012 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2012	Options exercised to 30 Sept 2012	**Options remaining 30 Sept 2012**	Option price (pence)
13 October 2005[1]	Approved Scheme	627,375	(311,818)	(223,104)	**92,453**	169
7 November 2005[1]	SAYE Scheme	186,033	(43,519)	(142,514)	**–**	136
2 August 2006[1]	Approved Scheme	52,427	(43,764)	(3,424)	**5,239**	292
2 August 2006[1]	Unapproved Scheme	8,220	(8,220)	–	**–**	292
17 January 2007[1]	Approved Scheme	162,885	(107,322)	(23,236)	**32,327**	345
17 January 2007[1]	Unapproved Scheme	18,263	(8,759)	(5,785)	**3,719**	345
21 March 2007[1]	Approved Scheme	6,077	–	–	**6,077**	452
1 February 2008[1]	SAYE Scheme	101,397	(101,397)	–	**–**	440
2 May 2008[1]	Approved Scheme	114,070	(72,078)	(138)	**41,854**	410
2 May 2008[1]	Unapproved Scheme	23,843	(16,100)	–	**7,743**	410
14 April 2009[1,2]	Unapproved Scheme	92,308	(92,308)	–	**–**	0.5
4 August 2009[1]	Approved Scheme	191,121	(90,900)	–	**100,221**	332.5
4 August 2009[1]	Unapproved Scheme	165,050	(70,521)	–	**94,529**	332.5
12 August 2009[1]	SAYE Scheme	202,069	(135,820)	(1,183)	**65,066**	254
3 August 2010	Approved Scheme	283,754	(93,827)	–	**189,927**	305
3 August 2010	Unapproved Scheme	210,653	(97,899)	–	**112,754**	305
3 August 2010[2]	Unapproved Scheme	92,308	(46,154)	–	**46,154**	0.5
15 November 2010	Approved Scheme	8,108	–	–	**8,108**	370
15 November 2010	Unapproved Scheme	18,243	–	–	**18,243**	370
4 April 2012[3]	Executive Shared Ownership Plan	1,608,337	–	–	**1,608,337**	153.1

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

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

3 Grant of the ExSOP scheme requires specific performance conditions being satisfied. These criteria's are set out below;
(i) The Share Price Target requires that the average mid-market closing price of a share should be no less than £2.49 during any period of thirty consecutive business days during the 3 months immediately prior to the vesting date.
(ii) EPS Target requires the growth in the Company's Adjusted Diluted EPS over the Performance Period to be at least 15% (being an average 5% annual growth rate, calculated without compounding).

Approved and Unapproved scheme options are exercisable at any time from the 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.

19 Employee benefits (continued)

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2012 Number of share options	2012 Weighted average exercise price £	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at the beginning of year	**578,557**	**3.00**	671,028	2.99
Granted during year	**–**	**–**	8,108	3.70
Lapsed during year	**(102,351)**	**(3.06)**	(100,329)	(2.98)
Exercised during year	**–**	**–**	(250)	(1.69)
Outstanding at end of year	**476,206**	**2.99**	578,557	3.00
Outstanding and exercisable at end of year	**278,171**	**2.93**	203,892	2.72

The options outstanding at 30 September 2012 were exercisable at prices between 169p and 452p. The weighted average remaining contractual life of those options yet to vest is 0.9 years.

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:

	2012	2011
Weighted average share price	**£2.10**	£2.10
Weighted average exercise price	**£3.00**	£3.00
Expected volatility	**30%**	30%
Expected life in years	**3**	3
Risk free rate range	**3%–5%**	3%–5%
Dividend yield	**1.1%**	1.1%

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

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

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2012 Number of share options	2012 Weighted average exercise price £	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at the beginning of year	**348,587**	**2.19**	552,639	2.13
Granted during year	**–**	**–**	18,243	3.70
Lapsed during year	**(65,445)**	**(0.93)**	(222,295)	(1.85)
Exercised during year	**–**	**–**	–	–
Outstanding at end of year	**283,142**	**2.72**	348,587	2.19
Outstanding and exercisable at end of year	**105,991**	**3.39**	12,665	3.91

The options outstanding at 30 September 2012 were exercisable at prices between 0.5p and 410p. The weighted average remaining contractual life of those options yet to vest is 0.9 years.

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:

	2012	2011
Weighted average share price	**£2.10**	£2.10
Weighted average exercise price	**£2.39**	£2.39
Expected volatility	**30%**	30%
Expected life in years	**3**	3
Risk free rate range	**3%–5%**	3%–5%
Dividend yield	**1.1%**	1.1%

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19 Employee benefits (continued)
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:

	2012		2011	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	**125,246**	**2.89**	186,277	2.84
Granted during year	**–**	**–**	–	–
Lapsed during year	**(60,180)**	**(3.28)**	(59,848)	(2.74)
Exercised during year	**–**	**–**	(1,183)	(2.54)
Outstanding at end of year	**65,066**	**2.54**	125,246	2.89
Outstanding and exercisable at end of year	**–**	**–**	23,821	4.40

The above options vested on 1 October 2012.

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:

	2012	2011
Weighted average share price	**£2.10**	£2.10
Weighted average exercise price	**£2.89**	£2.89
Expected volatility	**30%**	30%
Expected life in years	**3**	3
Risk free rate	**3%–5%**	3%–5%
Dividend yield	**1.1%**	1.1%

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

Executive Shared Ownership Plan
On 4 April 2012 the company issued a total of 1,608,337 new ordinary shares of 0.5p in the company in connection with the Company's Executive Shared Ownership Plan 2012. The New Ordinary Shares were jointly acquired by the employee benefit trust (managed independently by EES Trustees International Limited) and award recipients, at the closing market price as at 4 April 2012 of 140.5p.

20 Share capital

	2012 £000	2011 £000
Allotted, called up and fully paid:		
51,195,242 (2011: 49,586,905) ordinary shares of 0.5p each	**256**	248
53,402 deferred shares of 0.5p each	**–**	–
	256	248

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

20 Share capital (continued)

Movements in the number of issued shares were as follows:

2012	At 1 October 2011	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2012
Ordinary shares of 0.5p each	49,586,905	–	–	1,608,337	**51,195,242**
Deferred shares of 0.5p each	53,402	–	–	–	**53,402**

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

On 4 April 2012 the company issued a total of 1,608,337 new ordinary shares of 0.5p in the company in connection with the Company's Executive Shared Ownership Plan 2012. The New Ordinary Shares were jointly acquired by the employee benefit trust (managed independently by EES Trustees International Limited) and award recipients, at the closing market price as at 4 April 2012 of 140.5p.

Reserves

Share premium – During the year £50,000 (2011: £nil) of transaction costs associated with the issue of new shares has been charged to the share premium account.

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

21 Dividends

The aggregate amount of dividends comprises:

	2012 £000	2011 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,980**	1,815
Interim dividends paid in respect of the current year	**1,095**	987
Aggregate amount of dividends paid in the financial year	**3,075**	2,802

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.29p per share, £2,196,276 (2011: 4.00p per share, £1,983,476).

22 Acquisitions

(a) Acquisitions 2012

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

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

	Book values £000	Fair value adjustment £000	Fair value £000
Intangible fixed assets (note 12)	–	662	662
Property, plant and equipment (note 11)	203	–	203
Trade and other receivables	365	–	365
Cash	391	–	391
Trade and other payables	(14)	–	(14)
Bank loans	(138)	–	(138)
Corporation tax	(31)	–	(31)
Accruals and other creditors	(817)	(50)	(867)
Deferred tax	–	(345)	(345)
			226
Satisfied by:			
Cash paid			1,037
Deferred consideration			250
			1,287
Goodwill recognised on acquisition			1,061

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22 Acquisitions (continued)

The book values of the assets and liabilities were extracted from the underlying accounting records of the acquired entities on the date of acquisition. The book value of receivables represents the gross contractual amounts receivable, all of which are considered recoverable. The fair value adjustments made to intangible assets and creditors are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property, plant and equipment. The remaining goodwill of £716,00 relates to the assembled workforce acquired on acquisition. These acquisitions contributed revenue of £1,536,000 and underlying EBITDA of £219,000 to the Group's result for the year ended 30 September 2012.

Goodwill which is not expected to be tax deductible arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to intangible assets and property, plant and equipment, together with synergies expected to arise from combining operations, workforce in place and other intangible assets which do not qualify for separate recognition.

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

The following table summarises the acquisitions in the year:

Name	Date of acquisition	% of equity acquired
Applied Care & Development Limited	17 February 2012	100
Caretech Fostering Holdings Limited together with Caretech Fostering Services Limited	30 September 2012	100

(b) Acquisitions 2011

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

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

	Book values £000	Fair value adjustment £000	Fair value £000
Intangible assets (note 12)	–	11,341	11,341
Property, plant and equipment (note 11)	409	1,561	1,970
Trade and other receivables	1,484	(522)	962
Cash	269	–	269
Trade and other payables	(97)	–	(97)
Corporation tax	(369)	–	(369)
Accruals and other creditors	(578)	(350)	(928)
Deferred tax	(8)	(3,231)	(3,239)
			9,909
Satisfied by:			
Cash paid			10,898
Deferred consideration			1,590
Contingent consideration			500
Gain on bargain purchase (note 4)			821
			13,809
Goodwill recognised on acquisition			3,900

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

Goodwill which is not expected to be tax deductible arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to intangible assets and property, plant and equipment, together with synergies expected to arise from combining operations, workforce in place and other intangible assets which do not qualify for separate recognition.

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

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

22 Acquisitions (continued)

The following summarises the acquisitions in the year:

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

(c) Reconciliation to Group Cash Flow

	2012 £000	2011 £000
Cash consideration paid on acquisitions in the year	**1,037**	10,898
Cash consideration paid on previous year's acquisitions	**4,386**	2,996
Net cash acquired	**(391)**	(269)
	5,032	13,625

Deferred and contingent consideration payable

	2012 £000	2011 £000
Deferred consideration:		
Due within one year	**955**	4,645
Due in more than one year	**–**	–
Contingent consideration:		
Due within one year	**491**	1,951
Due in more than one year	**–**	–
	1,446	6,596

Contingent consideration is payable dependent upon various factors which are to be determined in future financial periods. Post acquisition earnings form the basis for determining the amount of payments. The range of outcomes is estimated to be between £Nil and £491,000.

(d) Proforma results

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

	2012 £000	2011 £000
Revenue	**115,519**	115,453
Operating profit	**21,933**	21,433

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 a charge to the income statement for bad or doubtful debts of £713,000 (2011: £150,000).

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23 Financial instruments (continued)

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

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

	2012 £000	2011 £000
Not due	**5,593**	4,947
Not more than 3 months past due	**1,594**	749
More than 3 months but not more than 6 months past due	**–**	–
More than 6 months past due	**–**	–
Trade receivables (note 14)	**7,187**	5,696

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

	£000
At 1 October 2010	867
Arising on acquisitions	200
Charged to the Consolidated Income Statement	150
Utilised in year	(410)
At 1 October 2011	807
Charged to the Consolidated Income Statement	713
Utilised in year	(825)
At 30 September 2012	**695**

Interest rate risk

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

- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £25 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £34 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £32 million at LIBOR fixed at 1.13%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £16 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £14 million at LIBOR fixed at 1.15%;

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has available bank facilities, sufficient, with cash flow from profits, to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, the following table indicates their contractual cash flow maturities.

2012	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	**–**	**(10,887)**	**(10,887)**	**(10,887)**	**–**	**–**
Secured bank loans	**4.4%**	**(136,169)**	**(166,261)**	**(12,717)**	**(153,544)**	**–**
Finance lease liabilities	**11%**	**(1,609)**	**(1,731)**	**(1,162)**	**(569)**	
Deferred and contingent consideration	**–**	**(1,446)**	**(1,446)**	**(1,446)**	**–**	**–**
Derivative financial instruments	**–**	**(4,383)**	**(4,383)**	**(2,861)**	**(1,522)**	**–**
		(154,494)	**(184,708)**	**(29,073)**	**(155,635)**	**–**

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

23 Financial instruments (continued)

Capital risk management

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

The Group's capital structure is as follows:

	2012 £000	2011 £000
Net debt	**131,203**	127,317
Equity	**76,139**	73,214

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 4.29 per share demonstrating a confident view of the Group's fundamental strength.

Foreign currency risk

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

Sensitivity analysis

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

At 30 September 2012, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax by approximately £180,000 (2011: £484,000). 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 2012 £000	Fair value 2012 £000	Carrying amount 2011 £000	Fair value 2011 £000
Loans and receivables:				
Cash at bank and in hand (note 15)	**6,575**	**6,575**	13,414	13,414
Trade receivables (note 14)	**7,187**	**7,187**	5,696	5,696
Amortised cost:				
Trade payables (note 17)	**(2,262)**	**(2,262)**	(2,386)	(2,386)
Secured bank loans (note 16)	**(136,169)**	**(136,169)**	(138,350)	(138,350)
Finance lease liabilities (note 16)	**(1,609)**	**(1,609)**	(2,381)	(2,381)
Held at fair value:				
Derivative financial instruments	**(4,383)**	**(4,383)**	(3,866)	(3,866)

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

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

Fair value hierarchy

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

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities: £4,383,000 (2011: £3,866,000).
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices: £Nil (2011:Nil).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: £Nil (2011:Nil).

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24 Operating leases
Non-cancellable operating lease rentals are payable as follows:

	2012		2011	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	**7,566**	**173**	6,882	184
Between 1 and 5 years	**25,455**	**49**	22,813	149
More than 5 years	**167,995**	**–**	159,460	1
	201,016	**222**	189,155	334

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

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

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

	2012		2011	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	**6,674**	**126**	6,806	192
Adjustment for minimum future lease payment uplifts (note 4)	**1,761**	**–**	1,463	–
Onerous lease provision (note 4)	**310**	**–**	646	–
Total recognised in the consolidated statement of comprehensive income	**8,745**	**126**	8,915	192

Analysis of movement in onerous lease provision

	£000
At 1 October 2010	–
Recognised in income statement (note 4)	646
At 1 October 2011	646
Recognised in income statement (note 4)	310
Utilised in year	(213)
At 30 September 2012	**743**

25 Related parties
During the year, CareTech Community Services Limited paid rent totalling £145,912 (2011: £106,991) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £nil was outstanding.

Transactions with key management personnel

	2012 £000	2011 £000
Salary	**1,707**	1,883
Benefits	**178**	191
Bonus	**198**	279
Total short-term remuneration	**2,083**	2,353
Post employment benefits	**148**	40
Share based payments	**27**	16
Fees	**–**	315
	2,258	2,724

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

Directors' emoluments are set out on page 21.

26 Accounting estimates and judgements

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

Estimates

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

In the process of applying the Group's accounting policies, the Directors have made the following estimates and judgements which have the most significant effect on the amounts recognised in the financial statements:

Goodwill

The Directors use their judgement to determine the extent to which goodwill has a value which will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill, using discounted cash flow forecasts to derive the "value in use" to the Group of the capitalised goodwill. In the assessment undertaken in 2012 value in use was derived from discounted 10 to 20 year cash flow projections using a year-on-year growth rate of 0% and discount rates relevant to the cost of capital adjusted for risks associated with the cash-generating unit. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions of discount rates, growth rates, expected changes to costs and selling prices used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill.

Customer relationships

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

Property, plant and equipment

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

Current asset provisions

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

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

Deferred taxation

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

Contingent consideration

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

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Company Statement of Changes in Equity

as at 30 September 2012

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2010	248	53,515	8,498	5,590	67,851
Profit for the year	–	–	–	3,211	3,211
Total comprehensive income	–	–	–	3,211	3,211
Dividends	–	–	–	(2,802)	(2,802)
Equity settled share-based payments charge	–	–	–	173	173
Transactions with owners recorded directly in equity	–	–	–	(2,629)	(2,629)
At 30 September 2011	248	53,515	8,498	6,172	68,433
At 1 October 2011	248	53,515	8,498	6,172	68,433
Loss for the year	–	–	–	(166)	(166)
Total comprehensive income	–	–	–	(166)	(166)
Issue of shares	8	2,200	–	–	2,208
Dividends	–	–	–	(3,110)	(3,110)
Equity settled share-based payments charge	–	–	–	123	123
Transactions with owners recorded directly in equity	8	2,200	–	(2,987)	(779)
At 30 September 2012	**256**	**55,715**	**8,498**	**3,019**	**67,488**

Company Balance Sheet

as at 30 September 2012

	Note	2012 £000	2011 £000
Non-current assets			
Investments	29	**35,242**	35,119
Trade and other receivables	30	**2,258**	–
		37,500	35,119
Current assets			
Trade and other receivables	30	**169,325**	34,753
Deferred taxation		**476**	–
Cash and cash equivalents		**17**	105
		169,818	34,858
Total assets		**207,318**	69,977
Current liabilities			
Loans and borrowings	31	**4,554**	–
Trade and other payables	32	**1,677**	261
Derivative financial instruments		**462**	–
Deferred consideration		**–**	1,283
		6,693	1,544
Non-current liabilities			
Loans and borrowings	31	**131,615**	–
Derivative financial instruments		**1,522**	–
		133,137	–
Total liabilities		**139,830**	1,544
Net assets		**67,488**	68,433
Equity			
Share capital	33	**256**	248
Share premium		**55,715**	53,515
Merger reserve		**8,498**	8,498
Retained earnings		**3,019**	6,172
Total equity attributable to equity shareholders of the parent		**67,488**	68,433

These financial statements were approved by the Board of Directors on 21 December 2012 and were signed on its behalf by:

F. Sheikh
Chairman

M. G. Hill
Finance Director

Financial Statements

Company Cash Flow Statement

for the year ended 30 September 2012

	2012 £000	2011 £000
Cash flows from operating activities		
(Loss)/profit for the year	(166)	3,211
Revaluation movements relating to derivative financial instruments	1,984	–
Deferred tax	(476)	–
Operating cash flows before movement in working capital	1,342	3,211
Movement in creditors	1,416	(71)
Movement in intercompany balance	(134,572)	(343)
Loan to Employee Benefit Trust	(2,258)	
Net cash from operating activities	(134,072)	2,797
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(1,283)	(367)
Cash flows from financing activities		
Proceeds from new loan (net of costs)	136,169	–
Dividends paid	(3,110)	(2,802)
Proceeds from the issue of new shares (net of costs)	2,208	–
Net cash used in financing activities	135,267	(2,802)
Net decrease in cash and cash equivalents	(88)	(372)
Cash and cash equivalents at start of year	105	477
Cash and cash equivalents at 30 September	17	105

Company Notes

27 Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Adopted IFRS standards, under the historical cost accounting rules except that derivative financial instruments are stated at their fair value and contingent consideration is stated at fair value through profit or loss.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income. The loss for the year dealt with in the financial statements of the Company was £166,000 (2011: £3,211,000 profit).

(b) Investments

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

(c) Cash and liquid resources

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

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.

(d) Interest-bearing borrowings

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

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs.

(e) Derivative financial instruments and hedging

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group does not apply hedge accounting to these financial instruments.

A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

(f) 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.

(g) Revenue

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

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Company Notes
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27 Accounting policies (continued

(h) Share-based payments
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 excluding the impact of non market vesting conditions. The amount recognised as an expense is adjusted to take into account an estimate of the number of shares that are expected to vest as well as to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

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

(i) Dividends on shares presented within shareholders' funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

28 Dividends
The aggregate amount of dividends comprises:

	2012 £000	2011 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,980**	1,815
Interim dividends paid in respect of the current year	**1,130**	987
Aggregate amount of dividends paid in the financial year	**3,110**	2,802

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.29p per share, £2,196,276 (2011: 4.00p per share, £1,983,476).

29 Investments

	Shares in group undertakings £000
Cost and net book value	
At beginning of year	**35,119**
Share-based payments charge in respect of subsidiary undertakings	**123**
At end of year	**35,242**

30 Trade and other receivables

	2012 £000	2011 £000
Non-current assets		
Amount owed by Employee Benefit Trust	**2,258**	–
Current assets		
Amounts owed by Group undertakings	**169,325**	34,753

31 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 23.

	2012 £000	2011 £000
Non-current liabilities		
Secured bank loans	131,615	–

	2012 £000	2011 £000
Current liabilities		
Current portion of secured bank loans	4,554	–

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2012 £000	Book value 2011 £000
Term loan	£	3.25 (2011:1.75)[1]	2017	107,760	–
Revolving credit facility term loan	£	3.25 (2011:2.25)[1]	2017	28,409	–
				136,169	–

1 The margin on the new facilities has initially been set at 3.5% over LIBOR for 6 months but reduces after that based on the ratio of the Group's net debt to the EBITDA. The overall margin is expected to be 3.25% over LIBOR.

At 30 September 2012 the Group has available bank facilities totalling £149.4m, sufficient, with cash flow from profits, to fund present commitments. Term facilities are used to fund capital expenditure and short term flexibility is achieved by the utilisation of cash resources.

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

32 Trade and other payables

	2012 £000	2011 £000
Other payables	1,677	261

33 Called up share capital

	2012 £000	2011 £000
Allotted, called up and fully paid:		
51,195,242 (2011: 49,586,905) ordinary shares of 0.5p each	256	248
53,402 deferred shares of 0.5p each	–	–
	256	248

On 4 April 2012 the company issued a total of 1,608,337 new ordinary shares of 0.5p in the company in connection with the Company's Executive Shared Ownership Plan 2012. The New Ordinary Shares were jointly acquired by the employee benefit trust (managed independently by EES Trustees International Limited) and award recipients, at the closing market price as at 4 April 2012 of 140.5p.

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

Details in respect of the reserves are given in note 20 to the Group financial statements.

34 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total Company expense relating to these plans in the current year was £nil (2011: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2011: £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 19).

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35 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 20 and 21. This analysis forms part of these financial statements.

36 Staff numbers and costs

The Company has no employees (2011: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

37 Related parties

During the year the Company received dividends of £3,050,000 (2011: £3,850,000) and fees of £70,000 (2011: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £169,325,000 (2011: £34,753,000).

38 Financial instruments

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Company, which primarily relate to credit, and liquidity risks, which arise in the normal course of the Company's business.

Credit risk

Financial instruments which potentially expose the Company to credit risk consist primarily of trade and other receivables. Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Where credit risk is deemed to have risen to an unacceptable level, remedial actions including the variation of terms of trade are implemented under the guidance of senior management until the level of credit risk has been normalised.

The Company provides credit to subsidiaries in the normal course of business. The balance includes the amounts considered recoverable which also equals to their fair value. The Company has collateral in respect of the investments it holds in its subsidiary undertakings. During the year there was no charge to the income statement for bad or doubtful debts (2011: £nil).

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

The trade receivables as at 30 September are inter-company balances and a balance due from the Employee Benefit Trust as follows:

	2012 £000	2011 £000
Not due	**171,583**	34,753
Not more than 3 months past due	**–**	–
More than 3 months but not more than 6 months past due	**–**	–
More than 6 months past due	**–**	–
Trade receivables (note 30)	**171,583**	34,753

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

Interest rate risk

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

- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £25 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £34 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £32 million at LIBOR fixed at 1.13%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £16 million at LIBOR fixed at 1.15%;
- a 4½ year swap commencing 17 July 2012 at pre-determined amounts initially starting at £14 million at LIBOR fixed at 1.15%.

38 Financial instruments (continued)

Liquidity risk

The Company prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Company has available bank facilities, sufficient, with cash flow from profits, to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, the following table indicates their contractual cash flow maturities.

	2012					
	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	–	(1,677)	(1,677)	(1,677)	–	–
Secured bank loans	4.4%	(136,169)	(166,261)	(12,717)	(153,544)	–
Derivative financial instruments	–	(1,984)	(1,984)	(462)	(1,522)	–
		(139,830)	(169,922)	(14,856)	(155,066)	–

	2011					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1–5 years £000	5 years and over £000
Trade and other payables		(261)	(261)	(261)	–	–

Capital risk management

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

The Group's capital structure is as follows:

	2012 £000	2011 £000
Net debt	136,152	–
Equity	67,488	68,433

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 4.29p per share demonstrating a confident view of the Group's fundamental strength.

Foreign currency risk

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

Sensitivity analysis

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

At 30 September 2012, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Company's profit before tax by approximately £180,000 (2011: £484,000). Hedging instruments have been included in this calculation.

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38 Financial instruments (continued)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2012 £000	Fair value 2012 £000	Carrying amount 2011 £000	Fair value 2011 £000
Loans and receivables:				
Cash at bank and in hand	**17**	**17**	105	105
Trade receivables (note 30)	**171,583**	**171,583**	34,753	34,753
Amortised cost:				
Other payables (note 32)	**(1,677)**	**(1,677)**	(261)	(261)
Secured bank loans (note 31)	**(136,169)**	**(136,169)**	–	–
Held at fair value:				
Derivative financial instruments	**(1,984)**	**(1,984)**	–	–

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

- for trade and other receivables and payables the carrying amount is deemed to reflect the fair value;
- for cash and cash equivalents the amounts reported on the balance sheet approximates to fair value;
- for secured bank loans at floating rate the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place.

Fair value hierarchy

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

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities: £1,984,000 (2011: £Nil).
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices: £Nil (2011:Nil).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: £Nil (2011:Nil).

Directors and Advisers

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

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Michael Hill

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